

# Message from the Chief Financial Officer

I am pleased to present the *Chief Financial Officer's Annual Report: Fiscal Year 2002* for the Centers for Disease Control and Prevention (CDC) and the Agency for Toxic Substances and Disease Registry (ATSDR). We are accountable for the level and quality of the services we provide to the American people; for supporting the mission and goals of our parent agency, the Department of Health and Human Services; for complying with legislation enacted by Congress; and for meeting the governmentwide President's Management Agenda.

For FY 2002, Congress provided the CDC with \$5.5 billion of budgetary authority and ATSDR with \$108.5 million. I am proud to report that our agencies have received their fifth consecutive unqualified opinion from our independent auditors, a recognition of the importance we ascribe financial stewardship and sound business practices. I feel that CDC's impeccable scientific integrity and its excellent record of fiscal stewardship and accountability are integrally related, each supporting the other.

CDC and ATSDR strive to support HHS' crucial public health mission and the President's Management Agenda, which was announced during FY 2001. We have and will continue to challenge ourselves to be leaders in excellent business practices, practices that will yield discernible results. CDC, in following its Financial Management Excellence Initiative, has been working to enhance and improve its already strong fiscal management. I would like to call attention to some of the key developments during FY 2002.

- CDC established an executive steering committee to bolster the agency's focus and help us achieve the objectives stated in the President's Management Agenda. CDC also appointed a full-time coordinator for issues related to the President's Management Agenda.
- CDC continued its work as an integral partner in HHS' initiative to develop a unified financial management system that will reduce the number of financial systems across the department, consolidate redundant financial operations, and interface the accounting system with other business systems such as those used for grants, travel, and personnel.



- CDC has continued striving to enhance and improve its fiscal management activities in areas such as core accounting competencies, professional staff recruitment, financial systems, training, and customer service.
- CDC supported the President's E-Government agenda by participating in seven E-Government projects; e-Vitals, contributed to HHS' E-Government initiatives, and continued improving and updating the CDC Web site, which consistently draws more than 5 million different visitors per month.
- CDC also took steps to implement the "restructuring and delayering plan" that emphasizes reducing the number of managers, organizational layers, and the time it takes to make decisions; increasing the span of control; and redirecting employees to customer service positions.
- CDC received approximately \$250 million for buildings and facilities, largely for the ongoing funding and continued construction of new facilities at the Roybal and Chamblee Campuses and for the designing and starting construction of other key efforts to upgrade the agency's physical infrastructure.

The fiscal information contained in this report, together with the performance information reported under the Government Performance and Results Act, offers documentation that CDC is a good investment for taxpayers and that the dollars we spend yield valuable results. CDC and ATSDR will continue to make significant contributions in improving the quality of life for all Americans and in supporting national efforts to bolster our homeland security and increase our ability as a nation to both prevent and respond to disease outbreaks, public health crises, and terrorist events.

We appreciate your interest in our *Chief Financial Officer's Annual Report: Fiscal Year 2002*, and we hope that you will find this document to be a concise and informative overview of our accomplishments, finances, operations, and organization.



William Gimson  
Deputy Director for Program Management and Operations  
and Acting Chief Financial Officer and Chief Operating Officer  
Centers for Disease Control and Prevention  
and Agency for Toxic Substances and Disease Registry

# Interpretation of Financial Information

The Deputy Director for Program Management and Operations, who also serves as the agency's Chief Operating Officer (COO), has the responsibility for financial management and related activities at CDC. The Director of CDC's Financial Management Office (FMO) reports to the Deputy Director for Program Management and Operations. FMO includes the Accounting, Financial Systems, Legislative, Financial Services, and Budget Branches and the Financial Policy and Internal Quality Assurance Activity.

## Financial Management and Planning

The Financial Management Office has responsibility for many new and ongoing initiatives, such as developing and implementing accounting and financial policies, systems, and reports; prompt payment; budget formulation and execution; improving reliability of financial information; implementing debt collection; and implementing all financial management legislation including these:

- Prompt Payment Act of 1982.
- Federal Managers Financial Integrity Act (FMFIA) of 1982.
- Chief Financial Officers Act of 1990.
- Cash Management Improvement Act of 1990.
- Government Management and Reform Act of 1994.
- Federal Financial Management Improvement Act of 1996.
- Debt Collection Improvement Act of 1996.

## Fiscal Year 2002 Budget

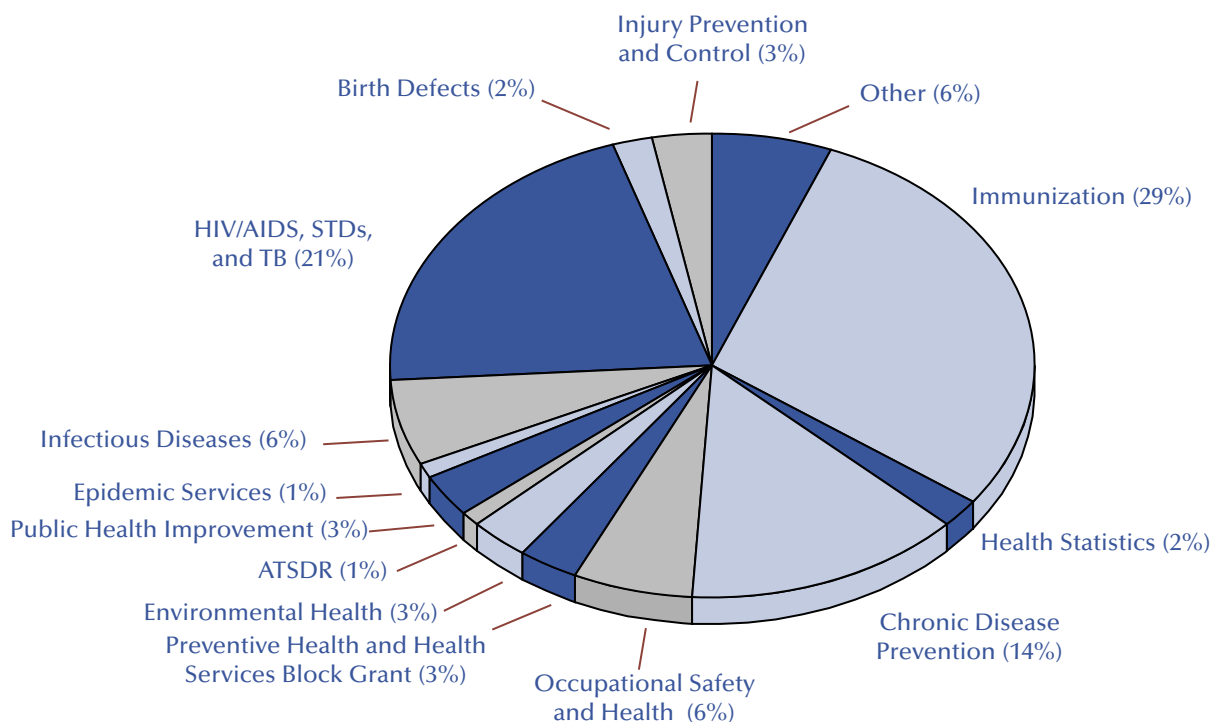
For FY 2002, CDC received a total budget authority of \$5.5 billion and ATSDR received a total budget authority of \$108.5 million. These authorities are derived from these sources:

- Annual discretionary appropriations for the annual operation costs of various CDC programs.

- Discretionary appropriations for the construction of CDC facilities.
- Collections for services provided by various CDC programs.
- Allocation transfer from the Centers for Medicare and Medicaid Services and other transfers from HHS agencies.

The following chart displays CDC's FY 2002 budget arrayed by the Government Performance and Results Act (GPRA) programs:

### Percentage of CDC Funding by Program Area, FY 2002



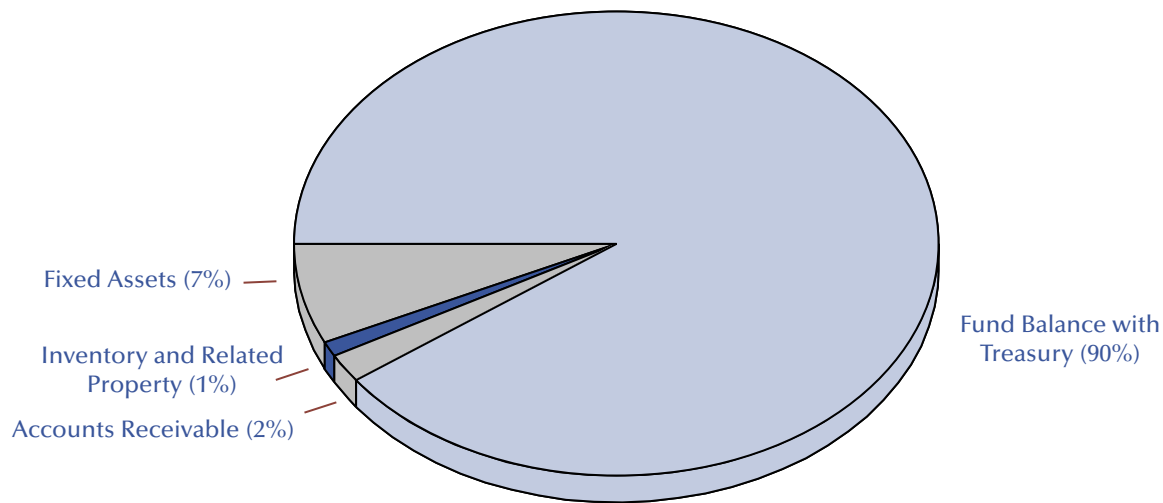
### Analysis of Financial Position (Balance Sheet)

Our analysis of the CDC/ATSDR financial statements follow. To simplify the discussion, we have generally discussed the balances for CDC and ATSDR as a consolidated entity.

#### Assets

CDC had approximately \$5 billion in total assets at the end of FY 2002. Fund Balances with Treasury represents the majority of CDC's assets (see following chart). We combined CDC's entity and nonentity assets for analysis because the nonentity portion of CDC's assets is immaterial. These nonentity assets consist mainly of miscellaneous receipts that result from overpayments to vendors, audit disallowances on grants and contracts, and refunds due to the agency from former employees.

### CDC Assets, FY 2002



### Cash Management and Prompt Payment

The Fund Balance with Treasury, which is the equivalent of “cash in the bank” for the private sector, accounted for 90% of CDC’s and 97% of ATSDR’s assets.

A crucial aspect of managing cash is promptly paying invoices and other payables to minimize the payment of interest and penalties. During FY 2002, CDC paid

- More than 142,000 invoices valued at approximately \$1.6 billion, an increase of 3.6% over the number of invoices in FY 2001.
- 97% of those invoices on time.

### Accounts Receivable

Accounts receivable of \$90 million consists primarily of amounts due to CDC under reimbursable agreements or for user fees. Although uncollectible receivables of \$53,000 with the public are not a material problem for CDC, efforts to collect those receivables consume a significant amount of staff resources. No allowance is considered necessary on the intragovernmental accounts receivable because past experience reflects that write-offs, if any, have been immaterial. CDC pursues the standard process of debt collection activities, including aggressive internal follow-up, salary and administrative offset, and referral to the Department of Justice. In addition, to meet the requirements of the Debt Collection Improvement Act of 1996, CDC refers all eligible debts more than 180 days delinquent to a debt management service center that services those debts with the Treasury Offset Program.

### Inventory and Related Property

CDC maintains a stockpile of vaccines valued at approximately \$30 million. Note 7 provides further information on these components of CDC’s asset balances.

## General Property, Plant, and Equipment

Property, Plant, and Equipment (PP&E) represents more than \$360 million of consolidated assets. CDC's PP&E includes a unique, state-of-the art laboratory, the headquarters building, several other office and laboratory buildings, and equipment.

## Liabilities

CDC and ATSDR have few liabilities (\$775 million) relative to the value of their consolidated assets (\$5 billion). CDC's most significant funded liabilities are its accounts payable of \$258 million, accrued grant liability of \$230 million, and accrued payroll of \$51 million. An accrued grant liability occurs when the year-end grant accrual exceeds advances to grantees outstanding for the year. Accounts payable are primarily for services provided under grants and contracts. Accrued funded payroll is payroll due to employees for services performed in FY 2002 but not paid until the beginning of FY 2003.

## Unfunded Liabilities

A noteworthy item in CDC's liabilities is the amount of unfunded liabilities (also called "liabilities not covered by budgetary resources"). These unfunded liabilities are caused by the inherent difference between the way funds are appropriated in the federal budget process and how they are accounted for under accrual accounting requirements.

For FY 2002, CDC's unfunded liabilities totaled \$167 million and consisted of annual and compensatory leave liability, capital lease liability, and disability compensation that is accruing for current employees and that will require future funding. The federal budget process does not recognize the costs of benefits to be paid in the future to current employees, but instead budgets for those future expenses in the future years when they are actually paid. Consequently, employee expenses (both for the present and future) are recorded in accrual financial statements but are underrepresented in the federal budget.

## Net Position

CDC's Net Position (the difference between assets and liabilities on the balance sheet) is broken down into unexpended appropriations and cumulative results of operations. Cumulative results of operations contain the cumulative balances of unfunded expenses and asset purchases.

## Analysis of Consolidating Statement of Net Cost

CDC's Consolidating Statement of Net Cost consists of program expenses less the funds earned by those programs under reimbursable agreements or user fee operations. Readers should note that the majority of CDC's programs are funded through appropriations rather than through earnings. Therefore, the net cost for most programs will be the majority of their operating expenses.

## Analysis of the Consolidating Statement of Changes in Net Position

The Consolidating Statement of Changes in Net Position begins with the beginning balances for the cumulative results of operations and the unexpended appropriations. The cumulative effect of changes in accounting principles and prior period adjustment, if any, is made to adjust the beginning balances. The FY 2002 cumulative effect of changes in accounting principles and prior period adjustment are discussed in Note 18.

Budgetary and other financing sources such as appropriations used, nonexchange revenues, donations, transfers-in/out, and imputed financing costs are added to the adjusted beginning balance of the cumulative results of operations. Net cost of operations is then subtracted to arrive at the ending cumulative results for operations.

Similarly, budgetary and other financing sources such as appropriations received, appropriations transferred-in/out and appropriations used are added to the adjusted beginning balance of the unexpended appropriations to arrive at the ending unexpended appropriations.

The ending balances of the cumulative results of operations and unexpended appropriations are reported in the balance sheet.

## Limitations of Financial Statements

The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S. 3515(b). Although these statements have been prepared from the books and records of the entity in accordance with accounting principles generally accepted in the United States of America (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget (OMB), these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One key implication of this fact is that liabilities cannot be liquidated without legislation that provides the resources to do so.



# Independent Auditors' Report and Annual Financial Statements

Memorandum from the Deputy Inspector General for Audit Services  
Independent Auditors' Report on the Consolidated Financial Statements  
Annual Financial Statements

# Memorandum from the Deputy Inspector General for Audit Services



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of Inspector General

Washington, DC 20201

TO: See Distribution List

FROM: *David M. Long*  
Dennis J. Duquett

FEB 10 2003

Deputy Inspector General  
for Audit ServicesSUBJECT: Report on the Financial Statement Audit of the Centers for Disease  
Control and Prevention and Agency for Toxic Substances and Disease  
Registry for Fiscal Year 2002 (A-17-02-00010)

The attached final report presents the results of the audit of Fiscal Year's (FY) 2002 financial statements of the Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry (CDC/ATSDR). We contracted with KPMG LLP, an independent certified public accounting firm, to perform the CDC/ATSDR audit that supports the departmentwide audit by the Office of Inspector General in accordance with the Government Management Reform Act of 1994.

Management is responsible for: (1) preparing the financial statements in conformity with accounting principles generally accepted in the United States; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of 31 U.S.C. 3512 (Federal Managers' Financial Integrity Act) are met; and (3) complying with applicable laws and regulations, including ensuring that CDC/ATSDR's financial management systems substantially comply with Federal Financial Management Improvement Act of 1996 (FFMIA) requirements.

The audit objectives were to determine whether: (1) the CDC/ATSDR consolidating balance sheet as of September 30, 2002, and the related consolidated totals on the accompanying consolidating statements of net cost, changes in net position and financing, and the combined statement of budgetary resources for the FY then ended, were fairly presented in all material respects; (2) CDC/ATSDR internal controls provided reasonable assurance that transactions were properly recorded and accounted for to permit the preparation of reliable financial statements; and (3) CDC/ATSDR complied with laws and regulations that could have a direct and material effect on the financial statements.

The KPMG also audited the adjustment, described in note 18 to the CDC/ATSDR financial statements that was applied to restate the consolidated totals on the accompanying consolidating balance sheet as of September 30, 2001. The adjustment related to a reclassification of a prior year lease from an operating to a capital lease, effective October 1, 2000. This adjustment increased general property, plant and equipment, total assets, other intragovernmental

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liabilities, and total liabilities on the September 30, 2001 consolidated balance sheet by \$47 million and had no significant affect on net costs or net position as of and for the FYs ended September 30, 2001 or 2002.

We evaluated the nature, timing, and extent of the work, monitored progress throughout the audit, reviewed the documentation of KPMG, met with partners and staff members, evaluated the key judgments, met with officials of CDC/ATSDR, reviewed independent tests of the accounting records, and performed other procedures we deemed appropriate in the circumstances. We conducted our work in accordance with auditing standards generally accepted in the United States.

The consolidated totals on the accompanying consolidating balance sheet as of September 30, 2001 and the related consolidated totals on the accompanying consolidating statement of net cost for the year then ended were audited by other auditors, whose report dated January 11, 2002, expressed an unqualified opinion on those financial statements, before the restatement described in note 18 to the consolidated financial statements. We performed similar oversight procedures in FY 2001 and concurred with the auditors' opinion.

We concur with KPMG's report that indicated the financial statements referred to above present fairly, in all material respects, the financial position of CDC/ATSDR as of September 30, 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended in conformity with accounting principles generally accepted in the United States. In addition, the restatement to FY 2001 was deemed appropriate and properly applied. The CDC/ATSDR is commended for sustaining its unqualified opinion.

Furthermore, the report on internal controls noted no weaknesses considered to be material under standards established by the American Institute of Certified Public Accountants. The report did note, however, certain matters relating to the internal controls over preparation, analysis, and monitoring of financial information, information systems environment, and grants monitoring process, which were considered to be reportable conditions.

Exclusive of the FFMIA, there was no reportable noncompliance with laws and regulations tested. The CDC/ATSDR's financial management systems, in some instances, did not substantially comply with certain requirements referred to in the FFMIA in the area of the use of United States Government General Ledger at the transaction level.

We would appreciate your views and information of the status of any action taken or contemplated on the recommendations within the next 60 days. If you have any questions or comments about this report, please do not hesitate to call me or David M. Long, Assistant Inspector General for Financial Management and Regional Operations, at (202) 619-1157 or through E-mail at [dlong@oig.hhs.gov](mailto:dlong@oig.hhs.gov). Please refer to report number A-17-02-00010 in all correspondence relating to this report.



201 M Street NW  
Washington, DC 20036

## Independent Auditors' Report on the Consolidated Financial Statements

Inspector General of the U.S. Department of Health and Human Services and Director of the Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry:

We have audited the consolidated totals on the accompanying consolidating balance sheet of the Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry (CDC/ATSDR) as of September 30, 2002, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, combined statement of budgetary resources, and the consolidated statement of financing for the year then ended (hereinafter referred to as consolidated financial statements). These consolidated financial statements are the responsibility of the CDC/ATSDR's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

The consolidated totals on the accompanying consolidating balance sheet of the CDC/ATSDR as of September 30, 2001, and the related consolidated totals on the accompanying consolidating statement of net costs for the year then ended, were audited by other auditors whose report dated January 11, 2002, expressed an unqualified opinion on those statements, before the restatement described in Note 18 to the consolidated financial statements.

We also audited the adjustment, described in Note 18 that was applied to restate the consolidated totals on the accompanying consolidating balance sheet of the CDC/ATSDR as of September 30, 2001. In our opinion, such adjustment was appropriate and has been properly applied.

We conducted our fiscal 2002 audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An



KPMG LLP. KPMG LLP, U.S. limited liability partnership, is a member of KPMG International, a Swiss Association.



audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the fiscal year 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the CDC/ATSDR as of September 30, 2002, and its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the consolidated financial statements, the CDC/ATSDR changed its accounting for biological products inventory, trust fund receipts, and other matters, effective October 1, 2001 and restated the consolidated totals on the consolidating balance sheet as of September 30, 2001.

The information in the Management's Discussion and Analysis, Interpretation of Financial Information, Required Supplementary Stewardship Information, and Required Supplementary Information sections is not a required part of the consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America or OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. We did not audit this information and, accordingly, we express no opinion on it. However, we were unable to assess control risk relevant to the CDC/ATSDR's intra-governmental transactions and balances, as required by OMB Bulletin No. 01-02, because reconciliations were not performed with certain federal trading partners as required by OMB Bulletin No. 01-09.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 10, 2002, on our consideration of the CDC/ATSDR's internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

December 10, 2002

Centers for Disease Control and Prevention and  
Agency for Toxic Substances and Disease Registry**Consolidating Balance Sheet**

As of September 30, 2002 and 2001 — (dollars in thousands)

	Health	Natural Resources and Environment	Combined Totals	Intra-OPDIV Eliminations	FY 2002 Consolidated Totals	FY 2001 Consolidated Totals (Restated)
<i>Assets</i>						
<b>Intragovernmental</b>						
Fund balance with Treasury (Note 3)	\$4,587,778	\$19,225	\$4,607,003	\$ —	\$4,607,003	\$3,653,248
Accounts receivable, net (Note 5)	83,211	—	83,211	(596)	82,615	39,951
Other assets (Note 9)	10,232	—	10,232	—	10,232	4,849
<b>Total intragovernmental assets</b>	<b>4,681,221</b>	<b>19,225</b>	<b>4,700,446</b>	<b>(596)</b>	<b>4,699,850</b>	<b>3,698,048</b>
Accounts receivable, net (Note 5)	7,746	2	7,748	—	7,748	9,847
Cash and other monetary assets (Note 4)	113	—	113	—	113	117
Inventory and related property (Note 7)	29,555	—	29,555	—	29,555	26,587
General property, plant, and equipment (Notes 8 and 18)	359,617	693	360,310	—	360,310	270,831
Other assets (Note 9)	1,550	—	1,550	—	1,550	2,043
<b>Total assets</b>	<b>\$5,079,802</b>	<b>\$19,920</b>	<b>\$5,099,722</b>	<b>(\$596)</b>	<b>\$5,099,126</b>	<b>\$4,007,473</b>
<i>Liabilities (Note 10)</i>						
<b>Intragovernmental</b>						
Accounts payable	\$ 427	\$ 171	\$ 598	(\$596)	\$ 2	\$ 40
Accrued payroll and benefits (Note 13)	4,917	—	4,917	—	4,917	7,367
Other liabilities (Notes 14 and 18)	127,563	9	127,572	—	127,572	106,849
<b>Total intragovernmental liabilities</b>	<b>132,907</b>	<b>180</b>	<b>133,087</b>	<b>(596)</b>	<b>132,491</b>	<b>114,256</b>
Accounts payable	258,008	43	258,051	—	258,051	156,282
Environment and disposal costs (Note 12)	3,385	—	3,385	—	3,385	—
Accrued grant liability (Note 6)	226,735	3,010	229,745	—	229,745	149,151
Federal employees' and veterans' benefits (Note 11)	17,077	962	18,039	—	18,039	18,752
Accrued payroll and benefits (Note 13)	96,766	43	96,809	—	96,809	81,342
Other liabilities (Note 14)	35,974	559	36,533	—	36,533	35,488
<b>Total liabilities</b>	<b>770,852</b>	<b>4,797</b>	<b>775,649</b>	<b>(596)</b>	<b>775,053</b>	<b>555,271</b>
<i>Net Position</i>						
Unexpended appropriations	4,037,588	—	4,037,588	—	4,037,588	3,283,304
Cumulative results of operations	271,362	15,123	286,485	—	286,485	168,898
<b>Total net position</b>	<b>4,308,950</b>	<b>15,123</b>	<b>4,324,073</b>	<b>—</b>	<b>4,324,073</b>	<b>3,452,202</b>
<b>Total liabilities and net position</b>	<b>\$5,079,802</b>	<b>\$19,920</b>	<b>\$5,099,722</b>	<b>(\$596)</b>	<b>\$5,099,126</b>	<b>\$4,007,473</b>

*The accompanying notes are an integral part of these financial statements.*

Centers for Disease Control and Prevention and  
Agency for Toxic Substances and Disease Registry**Consolidating Statement of Net Cost**

For the years ended September 30, 2002 and 2001 — (dollars in thousands)

Net program activity costs	Health	Natural Resources and Environment	FY 2002 Consolidated Totals	FY 2001 Consolidated Totals
<i>GPRA Programs:</i>				
Birth defects	\$ 33,388	\$ —	\$ 33,388	\$ —
Chronic disease prevention	626,139	—	626,139	622,781
Environmental and occupational health	203,754	11,404	215,158	481,651
Environmental health	122,497	—	122,497	—
Epidemic services	129,577	—	129,577	114,656
Health statistics	96,770	—	96,770	62,460
HIV/AIDS, STDs, and TB	364,630	—	364,630	—
Immunization	1,344,526	—	1,344,526	1,254,758
Infectious diseases	1,101,764	—	1,101,764	1,280,868
Injury prevention and control	107,854	—	107,854	105,681
Occupational safety and health	202,439	—	202,439	—
Prevention research	11,618	—	11,618	15,535
Preventive health and health services block grant	160,221	—	160,221	87,397
Public health improvement	36,433	—	36,433	—
<b>Net cost of operations</b>	<b>\$4,541,610</b>	<b>\$11,404</b>	<b>\$4,553,014</b>	<b>\$4,025,787</b>

*The accompanying notes are an integral part of these financial statements.*

Centers for Disease Control and Prevention and  
Agency for Toxic Substances and Disease Registry**Consolidating Statement of Changes in Net Position**

For the year ended September 30, 2002 — (dollars in thousands)

	Health		Natural Resources and Environment		FY 2002 Consolidated Total	
	2002 Cumulative Results of Operations	2002 Unexpended Appropriations	2002 Cumulative Results of Operations	2002 Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>Beginning balances, as previously reported</b>	\$ 171,337	\$ 3,226,958	(\$ 2,439)	\$56,346	\$ 168,898	\$3,283,304
Cumulative effect of changes in accounting (Note 18)	22,290	(4,791)	28,966	(56,346)	51,256	(61,137)
<b>Beginning balances, as adjusted</b>	193,627	3,222,167	26,527	—	220,154	3,222,167
<b>Budgetary financing sources:</b>						
Appropriations received		4,306,151		—		4,306,151
Appropriations transferred-in/out		1,017,535		—		1,017,535
Other adjustments	—	(29,137)	—	—	—	(29,137)
Appropriations used	4,479,128	(4,479,128)	—	—	4,479,128	(4,479,128)
Nonexchange revenue	4		—		4	
Donations and forfeitures of cash and cash equivalents	5,546		—		5,546	
Transfers-in/out without reimbursement	78,202		—		78,202	
Other budgetary financing sources	—		—		—	
<b>Other financing sources:</b>						
Donations and forfeitures of property	688		—		688	
Transfers-in/out without reimbursement	87		—		87	
Imputed financing from costs absorbed by others	56,769		—		56,769	
Other	(1,079)		—		(1,079)	
<b>Total financing sources</b>	4,619,345	815,421	—	—	4,619,345	815,421
<b>Net cost of operations</b>	4,541,610		11,404		4,553,014	
<b>Ending balances</b>	\$ 271,362	\$ 4,037,588	\$15,123	\$ —	\$ 286,485	\$4,037,588

*The accompanying notes are an integral part of these financial statements.*



Centers for Disease Control and Prevention and  
Agency for Toxic Substances and Disease Registry**Combined Statement of Budgetary Resources**

For the year ended September 30, 2002 — (dollars in thousands)

<b>Budgetary resources</b>	
<i>Budgetary authority</i>	
Appropriations received	\$4,402,559
Net transfer (+/-)	1,017,535
Unobligated balances:	
Beginning of period	62,029
Spending authority from offsetting collection:	
Earned	
Collected	159,200
Receivable from federal sources	13,881
Change in unfilled customer orders	
Advance received	(1,130)
Without advance from federal sources	81,453
Subtotal	253,404
Recoveries of prior year obligations	30,359
Permanently not available	(40,822)
<b>Total budgetary resources</b>	<b>5,725,064</b>
<b>Status of budgetary resources</b>	
Obligations incurred:	
Direct	5,385,891
Reimbursable	253,389
Subtotal	5,639,280
Unobligated balances: Available	
Apportioned	73,697
Exempt from apportionment	2,586
Unobligated balances not available	9,501
<b>Total status of budgetary resources</b>	<b>5,725,064</b>
<b>Relationship of obligations to outlays</b>	
Obligated balance, net— beginning of period	3,571,092
Obligated balance, net, end of period:	
Accounts receivable	(61,625)
Unfilled customer orders from federal sources	(176,644)
Undelivered orders	4,411,051
Accounts payable	353,216
<b>Outlays</b>	
Disbursements	4,558,681
Collections	(158,070)
Subtotal	4,400,611
<b>Net outlays</b>	<b>\$4,400,611</b>

*The accompanying notes are an integral part of these statements.*

Centers for Disease Control and Prevention and  
Agency for Toxic Substances and Disease Registry**Consolidated Statement of Financing**

For the Year ended September 30, 2002 — (dollars in thousands)

*Resources used to finance activities*

## Budgetary resources obligated

Obligations incurred	\$5,639,280
Less: Spending authority from offsetting collections and recoveries	(283,763)
Obligations net of offsetting collections and recoveries	5,355,517
Net obligations	5,355,517

## Other resources

Donations and forfeitures of property	688
Transfers in/out without reimbursement	87
Imputed financing from costs absorbed by others	56,769
Other nonbudgetary resources	(1,079)
Net nonbudgetary resources used to finance activities	56,465

<b>Total resources used to finance activities</b>	<b>5,411,982</b>
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*Resources used to finance items not part of the net cost of operations*

Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	803,622
Budgetary offsetting collections and receipts that do not affect net cost of operations:	
Other	(1,576)
Resources that finance the acquisition of assets	92,774
Total resources used to finance items not part of the net cost of operations	894,820
Total resources used to finance the net cost of operations	4,517,162

*Components of net cost of operations that will not require or generate resources in the current period*

## Components requiring or generating resources in future periods:

Increase in annual leave liability	5,491
Increase in environmental and disposal liability	3,385
Increase in exchange revenue receivable from the public	313
Other	(713)

Total components of net cost of operations that will require or generate resources in future periods	8,476
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## Components not Requiring or generating resources:

Depreciation and amortization	15,282
Losses or (gains) from revaluation of assets and liabilities	978
Other	11,116
Total components of net cost of operations that will not require or generate resources	27,376

<b>Total components of net cost of operations that will not require or generate resources in the current period</b>	<b>35,852</b>
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<b>Net cost of operations</b>	<b>\$4,553,014</b>
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*The accompanying notes are an integral part of these financial statements.*

# Notes to Annual Financial Statements

As of September 30, 2002 and 2001 (Dollars in Thousands)

## Note 1: Summary of Significant Accounting Policies

### A. Reporting Entity

CDC is considered a separate reporting entity of the Department of Health and Human Services (HHS), a cabinet level agency of the Executive Branch of the United States Government. CDC's main source of funding is through an annual appropriation from Congress. ATSDR is a separate entity within HHS, which is administered by CDC. The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) established the Hazardous Substances Superfund under which ATSDR operates.

The following are CDC's and ATSDR's appropriation accounts, including the purpose and availability of funds in those accounts (next page).

## Appropriated Funds

75 0943	Disease Control, Research, and Training: The General Operating Appropriation; Availability: Annual
75X0943	Disease Control, Research, and Training: Building and Facilities; Availability: No-year/Indefinite
75/0943	Disease Control, Research, and Training: Royalty Income; Availability: Two year and Three year
75 2/3 0943	Disease Control, Research, and Training: International HIV/AIDS Program; Availability: Two year
75X0512.009	Grants to States for Medicaid (Vaccines for Children Allocation); Availability: No-year/Indefinite
75F3875.09	Budget Clearing Account (Suspense)
75F3885.09	Budget Clearing Account (Suspense)
75X5146	Cooperative Research and Development Agreements; Availability: No-year/Indefinite
75X6276.09	Withhold State Payroll Deductions
75R1435	Miscellaneous Receipts Account, General Fund Proprietary Interest
75R3220	Miscellaneous Receipts Account, General Fund Proprietary Receipts, Not Otherwise Classified, All Other
75 X 6500.09	Advances without Orders from Nonfederal Sources

## Trust Funds

7520X8145(09)	Hazardous Substances Superfund; Availability: No-year/Indefinite
75 8252	Hazardous Substances Superfund; Availability: Annual
75 8606	Violent Crime Reduction Trust Fund; Availability: Annual
75X8250	Gifts and Donations; Availability: No-year/Indefinite

## B. Basis of Presentation

These financial statements have been prepared from the accounting records of the Centers for Disease Control and Prevention (CDC) in conformity with accounting principles generally accepted in the United States of America (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin 01-09, "Form and Content of Agency Financial Statements." These statements are therefore different from the financial reports, also prepared by CDC, pursuant to other OMB directives that are primarily used to monitor and control CDC's use of budgetary resources.

The financial statements consolidate the balances of 16 appropriations and trust fund accounts, including a number of accounts used for suspense, collection of receipts, and general governmental functions. In addition, the Statement of Net Cost identifies the Government Performance and Results Act (GPRA) programs

applicable to CDC. These programs changed for FY 2002 resulting in the division of previous programs and addition of new programs. Costs are identified to the GPRA programs applicable in their budgeted year.

### C. BASIS OF ACCOUNTING

CDC's transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to the receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

### D. ENTITY AND NONENTITY ASSETS

Entity assets are those assets that the reporting entity holds and has the authority to use in its operations. Nonentity assets are assets the entity holds but does not have the authority to use. CDC's nonentity assets consist of collections on debts that are due to be returned to the Department of the Treasury General Fund. The CDC financial statements combine the entity and nonentity assets. Note 2 "Nonentity Assets," Note 3 "Fund Balance with Treasury," Note 4 "Cash and Other Monetary Assets," Note 5 "Accounts Receivable, Net," and Note 9 "Other Assets" report the entity and nonentity assets.

### E. Funds with Treasury and Cash

CDC maintains all cash accounts with the U.S. Department of the Treasury. The account, "Fund Balance with Treasury," represents appropriated, trust, and other funds available to pay current liabilities. The U.S. Department of the Treasury processes cash receipts and disbursements for CDC.

### F. Accounts Receivable

Accounts receivable consist of amounts owed to CDC and ATSDR by other federal agencies and the public. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts. The allowance for loss is based on past collection experience.

### G. Advances to Grantees/Accrued Grant Liability

Grant Advances are cash outlays made by CDC to its grantees. An accrued grant liability occurs when the year-end grant accrual exceeds advances to grantees outstanding for the year.

The CDC's grant programs are classified into two categories, "programs not subject to the expense accrual" and "programs subject to the expense accrual."

***Programs Not Subject to the Expense Accrual:*** These programs are formula grants under which states provide a variety of services or payments to individuals and federal agencies that are precluded from requiring expense reporting. Under these formula grants, states receive a fixed sum pursuant to authorizing legislation and draw down based on cash needs. Accordingly, these programs operate on an allocation basis as opposed to a reimbursable basis. Therefore, they are not subject to an expense accrual.

***Programs Subject to the Expense Accrual:*** For programs subject to the accrual, grantees draw funds (recorded as Advances to Grantees in CDC's accounting systems) as bills or salary payments come due. The grantee pays the bills or salary and reports the payments to CDC quarterly on the SF 272 (recorded as an expense and a reduction to the advance balance in the accounting systems). The process adopted by CDC to estimate a year-end grant accrual relies on historical spending patterns to predict unreported grantee expenditures. The method breaks the accrual down into two components.

The first component represents the amount of expenditures expected to be reported by the grantees for the fourth quarter ending September 30. It is calculated with a data regression model, which uses historical grantee advance and expenditure data.

To estimate the second component, expenses Incurred But Not Reported (IBNR), HHS gathered information on spending patterns from four different groups of grantees to determine if they had unreported expenses at year-end and if so, in what amounts. As a result, HHS determined that grantees typically had year-end IBNR equal to approximately two weeks of annual expenditures. Together, the estimated amount of expenditures expected to be reported by grantees for the fourth quarter ending September 30 and the estimated IBNR represent the total amount reported for CDC for accrued grants. (See Note 6 "Advances to Grantees/Accrued Grant Liability.")

## H. Inventory and Related Property

Inventory and Related Property includes stockpile materials. Inventories are recorded as assets when purchased and are expensed when they are consumed or sold. CDC is required by the Omnibus Budget Reconciliation Act, effective October 1, 1993, to maintain a vaccine stockpile to meet unanticipated needs for the vaccines. Stockpile materials mainly represent vaccines held for use in case of a national emergency. CDC sells vaccines from the stockpile to state, local, and territorial health departments. The vaccine stockpile is maintained by the companies that manufacture the vaccines. The vaccine stockpile is valued at historical cost using a specific identification cost flow assumption.

## I. General Property, Plant, and Equipment

The basis for recording purchased General Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to a form and location suitable for its intended use. The cost of PP&E acquired under a capital lease is the amount recognized as a liability for the capital lease at its inception. The cost of PP&E acquired through donation is the estimated fair value when acquired. The cost of PP&E transferred from other federal entities is the net book value of the transferring entity. All PP&E with an initial acquisition cost of \$25,000 or more and an estimated useful life of two years or greater are capitalized. PP&E are depreciated on a straight-line basis over the estimated useful life of the item. Land and land rights, including permanent improvements, are not depreciated. Normal maintenance and repair costs are expensed as incurred.

## J. Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Because CDC is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources including (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriation. “Liabilities Covered by Budgetary Resources” and “Liabilities Not Covered by Budgetary Resources” are combined on the balance sheet. “Liabilities Not Covered by Budgetary Resources” are broken out in Note 10, “Liabilities not Covered by Budgetary Resources,” Note 11, “Federal Employees’ and Veterans’ Benefits,” Note 13, “Accrued Payroll and Benefits,” and Note 14, “Other Liabilities.”

Liabilities Not Covered by Budgetary Resources are incurred when funding has not yet been made available through Congressional appropriations or current earnings. CDC recognizes such liabilities for employee annual leave earned but not taken, and amounts billed by the Department of Labor for Federal Employees’ Compensation Act (FECA) disability payments.

## K. Federal Employees' and Veterans' Benefits

Federal employees' and veterans' benefits consist of the actuarial portions of future benefits earned by federal employees and veterans, but not yet due and payable.

These actuarial costs apply to FECA.

In addition, CDC has costs for pensions, other retirement benefits, and other post-employment benefits. These benefits are normally administered by the Office of Personnel Management and not by CDC. CDC also has employees who participate in the HHS-administered Commissioned Corps Retirement System. Because CDC does not administer the benefit plans, CDC does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other postemployment benefits. CDC does, however, recognize the imputed costs and imputed financing related to these benefits in the Consolidating Statement of Net Cost and the Consolidating Statement of Changes in Net Position, respectively. CDC recognizes the actuarial liability for future workers' compensation benefits as provided for in the Federal Employees' Compensation Act.

**Pensions:** Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most CDC employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, CDC makes matching contributions equal to 8.51% of basic pay. For FERS employees, CDC contributes the employer's matching share for Social Security and contributes an amount equal to 1% of employee pay to a savings plan and matches up to an additional 4% of pay. Most employees hired after December 31, 1983, are covered by FERS. The Office of Personnel Management reports on CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to federal employees.

**Other Retirement Benefits:** Retirement benefits other than pensions (ORB) are all forms of benefits to retirees or their beneficiaries provided outside the pension plan. Examples include health and life insurance. Retirement health care benefits are the primary expenses of this type.

**Other Postemployment Benefits:** Postemployment benefits other than pensions (OPEB) include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Inactive employees are those who are not currently rendering services to their employers and who have not been terminated, but who are not eligible for an immediate annuity, including those temporarily laid off or disabled. OPEB includes salary continuation,



severance benefits, counseling and training, continuation of health care or other benefits, and unemployment and workers' compensation benefits paid by the employer entity.

***Future workers' compensation benefits:*** The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approval of compensation cases. The actuarial liability is computed by the U.S. Department of Labor using historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. The projected annual benefit payments are discounted to present value using OMB's economic assumptions for 10-year Treasury notes and bonds. (See Note 11: "Federal Employees' and Veterans' Benefits.")

## L. Accrued Payroll and Benefits

"Accrued Workers Compensation (including FECA)" is for amounts due to former or inactive employees and beneficiaries. This can include salary continuation, severance benefits, counseling, and funded unemployment liability for federal employees.

"Accrued Payroll and Leave" is the estimated liability for salaries, wages, funded annual leave, and sick leave that has been earned but is unpaid.

"Payroll Withholding" is the amount withheld from employees' salary for taxes, employee benefit contributions and the employers' portion of payroll taxes and benefit contribution, such as retirement, Thrift Saving Plan, and health and life insurance.

"Liability for Pension Benefits for Administering Agency" is the amount due from administering agencies to eligible federal civilian or military employees or their beneficiaries, to benefit carriers for providing health insurance and for life insurance due to eligible beneficiaries. CDC is an administering agency for the Commissioned Corps. This is not an actuarial liability.

"Other" covers the amounts of unfunded employment related liabilities not covered by the current year's budget authority and not otherwise classified above. (See Note 13 "Accrued Payroll and Benefits.")

## M. Obligations Related to Canceled Appropriations

Payments may be required of up to 1% of current year appropriations for valid obligations incurred against prior year appropriations that have been canceled. The total potential payments related to canceled appropriations is estimated to be \$40.4 million and \$38.7 million as of September 30, 2002 and 2001, respectively.

## N. Revenues and Other Financing Sources

Funding for CDC is classified as revenue or other financing sources. Revenue is an inflow of resources that the government demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and nonexchange transactions. Exchange revenues arise when a government entity provides goods and services to the public or to another government entity for a price. Another term for “exchange revenue” is “earned revenue.” Nonexchange revenues arise primarily from exercise of the government’s power to demand payments from the public (e.g., taxes, duties, fines, and penalties) but also include donations. Other financing sources include appropriations used, transfers of assets from other government entities, and imputed financing.

### *Exchange Revenue*

CDC recognizes exchange revenue related to reimbursable agreements when the related expenses are incurred. CDC also collects various user fees to offset the cost of providing services. Exchange revenue is reported in the Consolidating Statement of Net Cost.

### *Nonexchange Revenue*

Nonexchange revenues may include penalties, fines, and administrative fees and other inflows of resources arising from the government’s power to demand payments, as well as voluntary donations. Nonexchange revenue is recognized when a reporting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets. It is recognized to the extent that the collection is probable and the amount is measurable. CDC reports nonexchange revenue on the Consolidating Statement of Changes in Net Position.

### *Other Financing Sources*

Congressional appropriations are the primary funding source for most of CDC’s programs. For financial statement purposes, appropriations used are recognized as a financing source as expenses are incurred or funded liabilities are established.

Imputed financing is costs incurred by one federal entity that are paid for by another federal entity. These are also known as inter-entity costs. OMB has limited the inter-entity costs to be recognized by federal agencies to the following: (1) employee’s pension benefits; (2) the health, life insurance, and other benefits for retired employees; (3) other postemployment benefits for retired, terminated, and inactive employees, which include severance payments, training and counseling, continued health care, and unemployment and workers’ compensation

under the Federal Employees' Compensation Act; and (4) losses in litigation proceedings (FASAB Interpretation No. 2, "Accounting for Treasury Judgment Fund transactions").

## O. Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to CDC. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened, or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not, and the related future outflow or sacrifice is measurable. For pending, threatened, or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely to occur, and the related future outflow or sacrifice of resources is measurable.

## P. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

## Q. Intragovernmental Relationships and Transactions

In the course of its operations, CDC has relationships and financial transactions with numerous federal agencies. The more prominent of those relationships are with other operating divisions of HHS. CDC also has relationships with agencies such as the General Services Administration and the Environmental Protection Agency, among others. At the governmentwide level, the assets, liabilities, expenses, and revenues related to those transactions are eliminated. Transactions between HHS operating divisions are eliminated in the HHS consolidated financial statements.

## Note 2: Nonentity Assets

Nonentity assets are funds that CDC holds but does not have authority to use. Nonentity assets include withholdings for state payroll deductions, collections of interest, and other miscellaneous receipts.

Nonentity Assets					
	FY 2002				FY 2001
	Health	Natural Resources and Environment	Intra-OPDIV Eliminations	Consolidated Total	Consolidated Total
<i>Intragovernmental:</i>					
Fund balance with Treasury	\$ 1,958	\$ —	\$ —	\$ 1,958	\$ —
Accounts receivable	12	—	—	12	13
<b>Total intragovernmental</b>	<b>1,970</b>	<b>—</b>	<b>—</b>	<b>1,970</b>	<b>13</b>
Accounts receivable	444	—	—	444	438
Total nonentity assets	2,414	—	—	2,414	451
Total entity assets	5,077,388	19,920	(596)	5,096,712	4,007,022
<b>Total assets</b>	<b>\$5,079,802</b>	<b>\$19,920</b>	<b>(\$596)</b>	<b>\$5,099,126</b>	<b>\$4,007,473</b>

## Note 3: Fund Balance with Treasury

CDC's undisbursed account balances at September 30, 2002 and 2001, are listed below by fund type and by status of funds. Other fund types include balances in deposit, suspense, clearing, and related nonspending accounts.

Fund Balance with Treasury				
	FY 2002			FY 2001
	Health	Natural Resources and Environment	Consolidated Total	Consolidated Total
<b>Fund balances</b>				
Trust funds	\$ 23,872	\$19,225	\$ 43,097	\$ 76,533
Appropriated funds	4,556,944	—	4,556,944	3,575,033
Other fund types	6,962	—	6,962	1,682
<b>Total</b>	<b>\$4,587,778</b>	<b>\$19,225</b>	<b>\$4,607,003</b>	<b>\$3,653,248</b>
	FY 2002			FY 2001
	Health	Natural Resources and Environment	Consolidated Total	Consolidated Total
<b>Status of fund balance with Treasury</b>				
Unobligated balance:				
Available	\$ 76,286	\$ —	\$ 76,286	\$ 50,382
Unavailable	9,514	7,186	16,700	18,756
Obligated balance not yet disbursed	4,501,978	12,039	4,514,017	3,584,110
<b>Total</b>	<b>\$4,587,778</b>	<b>\$19,225</b>	<b>\$4,607,003</b>	<b>\$3,653,248</b>

## Note 4: Cash and Other Monetary Assets

CDC held entity cash assets totaling \$113 and \$117, at September 30, 2002 and 2001, respectively. Such balances include imprest funds and undeposited collections.

## Note 5: Accounts Receivable, Net

CDC's accounts receivable consists mainly of amounts due for goods and services provided to other federal agencies and public and foreign entities. CDC receivables also include miscellaneous refunds due to CDC resulting from overpayments to vendors or to current or noncurrent employees. CDC only establishes an allowance for uncollectible accounts for governmental receivables. The allowance is based on past collection experience and an analysis of the outstanding balances.

ATSDR receives funding from the invested Superfund trust fund. In order to maintain sound cash management principles, funds remain invested until needed for disbursement to maximize interest earned. This practice can result in an accounts receivable for funds to cover disbursements that have not been transferred.

The FY 2002 increase in accounts receivable was mostly due to an increase in accounts receivable for reimbursable agreements and an outstanding receivable for funds due for ATSDR from the Superfund trust fund.

CDC's accounts receivable at September 30, 2002 and 2001, are summarized in the following table, next page:

## Accounts Receivable, Net

	Ending Balance, Gross Receivables	Allowance	Net Receivables, Combined	Intra-Entity Eliminations	Net Receivables, Consolidated
<b>At September 30, 2002</b>					
<i>Intragovernmental</i>					
<b>Entity</b>					
Health	\$83,199	\$ —	\$83,199	(\$ 596)	\$82,603
<b>Nonentity</b>					
Health	12	—	12	—	12
<b>Total Intragovernmental</b>	\$83,211	\$ —	\$83,211	(\$ 596)	\$82,615
<i>With the Public</i>					
<b>Entity</b>					
Health	\$ 7,355	(\$ 53)	\$ 7,302	\$ —	\$ 7,302
Natural resources and the environment	2	—	2	—	2
<b>Nonentity</b>					
Health	444	—	444	—	444
<b>Total, with the public</b>	\$ 7,801	(\$ 53)	\$ 7,748	\$ —	\$ 7,748
<b>At September 30, 2001</b>					
<i>Intragovernmental</i>					
<b>Entity</b>					
Health	\$36,380	\$ —	\$36,380	(\$1,161)	\$35,219
Natural resources and the environment	4,719	—	4,719	—	4,719
<b>Nonentity</b>					
Health	13	—	13	—	13
<b>Total Intragovernmental</b>	\$41,112	\$ —	\$41,112	(\$1,161)	\$39,951
<i>With the public</i>					
<b>Entity</b>					
Health	\$ 9,306	(\$114)	\$ 9,192	\$ —	\$ 9,192
Natural resources and the environment	217	—	217	—	217
<b>Nonentity</b>					
Health	438	—	438	—	438
<b>Total, with the public</b>	\$ 9,961	(\$114)	\$ 9,847	\$ —	\$ 9,847

## Note 6: Advances to Grantees/ Accrued Grant Liability

Grant advances are liquidated upon the grantee's reporting of expenditures on the quarterly SF-272 Report (Federal Cash Transaction Report). In many cases, these reports are received several months after the grantee actually incurs the expense, resulting in an understated grant expense in the financial statements. To mitigate this, HHS developed departmentwide procedures used by its OPDIVs to estimate and accrue amounts due grantees for their expenses, both realized and accrued, through fiscal year-end.

At fiscal year-end when CDC records the estimated accrual for amounts due to grantees for their expenses, if the amount of outstanding advances exceeds the amount of the accrual, CDC reports an asset for "Advances to Grantees." Otherwise, CDC reports a liability called "Accrued Grant Liability," equal to the amount that the accrual exceeds the outstanding advances. For additional information on this subject see Note 1 under "Advances to Grantees/Accrued Grant Liability."

Net grant advances increased in FY 2002 because of an increase in the estimated grant accrual and a decrease in grant advances outstanding. All advances other than grant advances are reported in the "Other Assets" category, as detailed in Note 9.

Accrued Grant Liability				
	FY 2002			FY 2001
	Health	Natural Resources and Environment	Consolidated Total	Consolidated Total
Grant advances (liability) outstanding (before year-end grant accrual)	\$ 319,006	(\$1,154)	\$317,852	\$346,388
Less: estimated accrual for amounts due to grantees	545,741	1,856	547,597	495,539
Net grant advances (liability)	(\$226,735)	(\$3,010)	(\$229,745)	(\$149,151)

## Note 7: Inventory and Related Property, Net

CDC is mandated by law to maintain a vaccine stockpile to meet unanticipated needs for the vaccines, and for national emergencies. Vaccine stockpiles are maintained by the vaccine manufacturers and consist of several types of vaccines. CDC may only sell these vaccines to state, local, or territorial health departments. The health departments order vaccines through CDC, and CDC notifies

the manufacturer of the orders. The manufacturer ships the vaccines directly to the health departments. CDC's vaccine stockpile is valued at historical cost using a specific identification cost flow assumption.

CDC's contracts with the vaccine manufacturers generally state that a manufacturer's excise tax will be paid upon delivery of the vaccines. The excise tax funds a vaccine injury compensation program that is part of the National Vaccine Injury Compensation Program (VICP). The VICP, established by the Public Health Service Act, provides no-fault compensation for certain individuals who have been injured by specific childhood vaccines. The Taxpayer Relief Act of 1997 provides that the excise tax on all covered vaccines is \$0.75 per dose and that combinations of vaccines are subject to an excise tax, which is the sum of amounts for each vaccine included in the combination. The excise tax is paid by the health departments when they purchase the vaccines from CDC. Based on the number of doses in the vaccine stockpile at the end of FY 2002, the excise tax payable is \$5,774.

During FY 2002, CDC changed its accounting practice for the biological materials inventory it maintained in prior years in accordance with SFFAS 3, *Accounting for Inventory and Related Property*. In FY 2002, CDC expensed the items reported in FY 2001 as operating materials and supplies held for future use. See Note 18, Cumulative Effect of Changes in Accounting Principles and Prior Period Adjustment.

CDC's inventory and related property, net at September 30, 2002 and 2001, are summarized in the following table:

Inventory and Related Property, Net		
	Health	
	FY 2002	FY 2001
Operating materials and supplies (OMS) held for future use	\$ —	\$ 8,099
<b>Total OMS</b>	—	8,099
Stockpile materials held for emergency	29,555	18,488
<b>Total inventory and related property, net</b>	\$29,555	\$26,587

## Note 8: General Property, Plant, and Equipment, Net

Balances for the major categories of CDC Property, Plant, and Equipment at September 30, 2002 and 2001, are listed below:

See the disclosure, "Schedule of Deferred Maintenance" in the Required Supplementary Information section for information on deferred maintenance for General Property, Plant, and Equipment.



## General Property, Plant, and Equipment, Net

FY 2002						FY 2001
Property, Plant, and Equipment	Depreciation Method	Estimated Useful Life	Acquisition Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land and land rights	N/A	N/A	\$ 19,883	\$ —	\$ 19,883	\$ 19,882
Construction in progress	N/A	N/A	74,765	—	74,765	66,632
Buildings, facilities, and other structures	Straight line	31.5 years	207,457	(94,478)	112,979	67,713
Equipment	Straight line	3–20 years	105,493	(45,388)	60,105	49,818
Internal use software	Straight line	5 years	187	—	187	—
Capital leases	Straight line	31.5 years	97,082	(5,384)	91,698	65,862
Health total			504,867	(145,250)	359,617	269,907
Equipment, Natural Resources and Environment	Straight line	7–15 years	1,899	(1,206)	693	924
<b>Total</b>			<b>\$506,766</b>	<b>(\$146,456)</b>	<b>\$360,310</b>	<b>\$270,831</b>

## Note 9: Other Assets

CDC's other assets as of September 30, 2002 and 2001, comprise the following, all of which are considered entity assets:

## Other Assets

	Health	
	FY 2002	FY 2001
<i>Intragovernmental</i>		
Advances to other federal entities	\$10,232	\$4,849
Combined, intragovernmental	10,232	4,849
Less: intra-entity eliminations	—	—
<b>Consolidated, intragovernmental</b>	<b>\$10,232</b>	<b>\$4,849</b>
<i>With the Public</i>		
Travel advances and emergency employee payments	\$ 1,482	\$1,574
Advances to others	68	469
<b>Combined, with the public</b>	<b>\$ 1,550</b>	<b>\$2,043</b>

## Note 10: Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. CDC's liabilities not covered by budgetary resources primarily include capital lease liabilities; accrued leave, which is funded as it is taken; and the actuarial liability determined by the Department of Labor but not yet billed.

### Liabilities Not Covered by Budgetary Resources

	Health	Natural Resources and Environment	Intra-OPDIV Eliminations	FY 2002 Consolidated Total	FY 2001 Consolidated Total
<i>Intragovernmental:</i>					
Capital lease liability	\$ 94,570	\$ —	\$ —	\$ 94,570	\$ 67,784
Other	456	—	—	456	16
<b>Total intragovernmental</b>	<b>95,026</b>	<b>—</b>	<b>—</b>	<b>95,026</b>	<b>67,800</b>
Environmental and disposal liability	3,385	—	—	3,385	—
Federal employees' and veterans' benefits	17,077	962	—	18,039	18,752
Accrued leave	51,038	—	—	51,038	45,547
<b>Total liabilities not covered by budgetary resources</b>	<b>166,526</b>	<b>962</b>	<b>—</b>	<b>167,488</b>	<b>132,099</b>
<b>Total liabilities covered by budgetary resources</b>	<b>604,326</b>	<b>3,835</b>	<b>(596)</b>	<b>607,565</b>	<b>423,172</b>
<b>Total liabilities</b>	<b>\$770,852</b>	<b>\$4,797</b>	<b>(\$596)</b>	<b>\$775,053</b>	<b>\$555,271</b>

## Note 11: Federal Employees' and Veterans' Benefits

The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical, and miscellaneous costs for approval of compensation cases. The liability is determined by a method that uses historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions used for discounting in 2002 was 5.20% in year 1, 5.20% in year 2, and thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments

or COLAs), and medical inflation factors (consumer price index medical or CPIMs) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year dollars. The compensation COLAs and CPIMs used in projections were as follows:

### Future Workers' Compensation Benefits

Fiscal Year	COLA	CPIM
2003	1.80%	4.31%
2004	2.67%	4.01%
2005	2.40%	4.01%
2006+	2.40%	4.01%

Workers' compensation benefits are liabilities not covered by budgetary resources. CDC's Federal Employees' and Veterans' Benefits at September 30, 2002 and 2001, are summarized in the following table:

### Actuarial FECA Liability

With the Public	FY 2002	FY 2001
<i>Liabilities not covered by budgetary resources</i>		
Future workers' compensation benefits	\$18,039	\$18,752
<b>Total federal employees' and veterans' benefits</b>	<b>\$18,039</b>	<b>\$18,752</b>

## Note 12: Environmental and Disposal Costs

Environmental and Disposal Costs are the costs of removing, containing, and disposing of (1) hazardous waste from property, or (2) material or property, or both, that consists of hazardous waste at permanent or temporary closure or shutdown of associated Property, Plant, and Equipment. In accordance with SFFAS 5 *Accounting for Liabilities of the Federal Government* and SFFAS 6 *Property, Plant, and Equipment*, CDC has recognized a liability for cleanup of \$3,385. The following table presents CDC cleanup costs; the total estimated cleanup cost is the liability recognized:

### Environmental and Disposal Costs

With the Public			
Project	Method for Assigning Cost	Liabilities not Covered by Budgetary Resources	FY 2002 Total
<b>Various</b>	Estimated cost of similar remediation	\$3,385	\$3,385

## Note 13: Accrued Payroll and Benefits

Accrued funded payroll is the estimated liability for salaries and wages and other benefits of civilians and commissioned officers that have been incurred but are unpaid at the end of the fiscal year. CDC's accrued payroll and benefits at September 30, 2002 and 2001, are summarized in the next table:

## Accrued Payroll and Benefits

	FY 2002		
	Health	Natural Resources and Environment	Consolidated Total
<b>Intragovernmental</b>			
<i>Liabilities covered by budgetary resources</i>			
Accrued payroll	\$ 4,917	\$ —	\$ 4,917
Total liabilities covered by budgetary resources	4,917	—	4,917
<b>Total, intragovernmental</b>	\$ 4,917	\$ —	\$ 4,917
<i>With the Public</i>			
<i>Liabilities covered by budgetary resources</i>			
Accrued payroll	\$45,728	\$ 43	\$45,771
Total liabilities covered by budgetary resources	45,728	43	45,771
<i>Liabilities not covered by budgetary resources</i>			
Accrued leave	51,038	—	51,038
Total liabilities not covered by budgetary resources	51,038	—	51,038
<b>Total, with the public</b>	\$96,766	\$43	\$96,809
	FY 2001		
	Health	Natural Resources and Environment	Consolidated Total
<b>Intragovernmental</b>			
<i>Liabilities covered by budgetary resources</i>			
Accrued payroll	\$ 3,827	\$ 213	\$ 4,040
Accrued workers compensation	3,327	—	3,327
Total liabilities covered by budgetary resources	7,154	213	7,367
<b>Total, intragovernmental</b>	\$ 7,154	\$ 213	\$ 7,367
<i>With the public</i>			
<i>Liabilities covered by budgetary resources</i>			
Accrued payroll	\$33,816	\$1,979	\$35,795
Total liabilities covered by budgetary resources	33,816	1,979	35,795
<i>Liabilities not covered by budgetary resources</i>			
Accrued leave	43,282	2,265	45,547
Total liabilities not covered by budgetary resources	43,282	2,265	45,547
<b>Total, with the public</b>	\$77,098	\$4,244	\$81,342

## Note 14: Other Liabilities

Other liabilities covered by budgetary resources include deferred revenue that represents advances received from other federal agencies and the public under reimbursable agreements in excess of expenses incurred in the execution of the agreements. All other liabilities covered by budgetary resources are considered current. CDC's Other Liabilities at September 30, 2002 and 2001, are summarized in the following table:

### Other Liabilities and Deferred Revenue

	FY 2002			FY 2001
	Health	Natural Resources and Environment	Consolidated Total	Consolidated Total
<b>Intragovernmental</b>				
<i>Liabilities covered by budgetary resources</i>				
Liabilities for deposit funds, clearing accounts, and undeposited collections	\$ 1,808	\$ —	\$ 1,808	\$14,760
Deferred revenue	15,836	—	15,836	17,013
Other	14,893	9	14,902	7,276
<b>Total intragovernmental liabilities covered by budgetary resources</b>	<b>32,537</b>	<b>9</b>	<b>32,546</b>	<b>39,049</b>
<i>Liabilities not covered by budgetary resources</i>				
Capital lease liability	94,570	—	94,570	67,784
Other	456	—	456	16
<b>Total intragovernmental liabilities not covered by budgetary resources</b>	<b>95,026</b>	<b>—</b>	<b>95,026</b>	<b>67,800</b>
<b>Total other intragovernmental liabilities</b>	<b>127,563</b>	<b>9</b>	<b>127,572</b>	<b>106,849</b>
<b>With the public</b>				
<i>Liabilities covered by budgetary resources</i>				
Liabilities for deposit funds, clearing accounts, and undeposited collections	2,890	—	2,890	388
Deferred revenue	2,360	—	2,360	2,314
Other	30,724	559	31,283	32,786
<b>Total liabilities with the public covered by budgetary resources</b>	<b>35,974</b>	<b>559</b>	<b>36,533</b>	<b>35,488</b>
<b>Total</b>	<b>\$163,537</b>	<b>\$568</b>	<b>\$164,105</b>	<b>\$142,337</b>

## Note 15: Leases

**Capital Leases:** CDC entered into an agreement with the General Services Administration (GSA) for the lease-purchase of four buildings, including one agreement that commenced in FY 2002. Under this agreement, ownership of the buildings will transfer to CDC at the end of the lease periods. Capitalized assets acquired under capital lease agreements and their related liabilities are reported at the present value of the minimum lease payments. The imputed interest is \$84,042 as of September 30, 2002. The increase in the lease asset balance is the addition of the new lease-purchase laboratory building in FY 2002.

**Operating leases:** CDC also has commitments with the public under four cancelable direct leases for office space, laboratory space, and land. The lease for office space terminates in FY 2005, the laboratory lease terminates in FY 2002, and the two land leases terminate in FY 2002 and FY 2008. In addition, CDC has other lease agreements with GSA and other federal agencies under which CDC paid \$32,559 in FY 2002 for office, warehouse, and parking space. CDC's projected rent expense pertaining to these four direct leases is as follows:

Leases				
Summary of assets under capital lease		FY 2002	FY 2001	
Land and building		\$97,082	\$69,705	
Less: accumulated amortization		(5,384)	(3,843)	
Assets under capital lease		\$91,698	\$65,862	

Future Minimum Lease Payments	FY 2002		FY 2001	
	Capital Leases	Operating Leases	Capital Leases	Operating Leases
FY 2003	\$ 7,886	\$ 256	\$ 5,981	\$ 694
FY 2004	7,886	239	5,981	209
FY 2005	7,886	204	5,980	209
FY 2006	7,886	154	5,980	202
FY 2007	7,886	154	5,980	154
Later years	139,182	154	96,163	307
Total minimum lease payments	178,612	1,161	126,065	1,775
Less imputed interest	(84,042)		(58,281)	
<b>Total capital lease liability</b>	<b>\$ 94,570</b>		<b>\$ 67,784</b>	

## Note 16: Exchange Revenues

CDC's policy is to establish prices for material and services provided to other federal agencies and private companies at CDC's full cost.

## Note 17: Consolidated Gross Cost and Exchange Revenue by Budget Functional Classification

CDC's consolidated gross cost and exchange revenue by budget functional classification for the fiscal years ended September 30, 2002 and 2001, are summarized in the following table:

### Consolidated Gross Cost and Exchange Revenue by Budget Functional Classification

	FY 2002			FY 2001
	Health	Natural Resources and Environment	Consolidated Totals	Consolidated Totals
<b>Intragovernmental</b>				
Gross cost	\$ 509,545	\$ 892	\$ 510,437	\$ 430,787
Less: exchange revenue	159,491	—	159,491	200,562
Net cost - intragovernmental	350,054	892	350,946	230,225
<b>With the public</b>				
Gross cost	4,194,797	10,512	4,205,309	3,797,762
Less: exchange revenue	3,241	—	3,241	2,200
Net cost - with the public	4,191,556	10,512	4,202,068	3,795,562
<b>Totals</b>				
Gross cost	4,704,342	11,404	4,715,746	4,228,549
Less: exchange revenue	162,732	—	162,732	202,762
<b>Net cost of operations</b>	<b>\$4,541,610</b>	<b>\$11,404</b>	<b>\$4,553,014</b>	<b>\$4,025,787</b>



## Note 18: Cumulative Effect of Changes in Accounting Principles and Prior Period Adjustment

### A. Changes in Accounting

In FY 2002, CDC changed its accounting method related to reporting its biological products inventory from recording these amounts as an asset to expensing them, based on Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*. As of October 1, 2001, CDC's biological products inventory totaled \$8,099. According to SFFAS 3, operating materials and supplies may be expensed when purchased: (1) if they are not significant amounts, (2) they are in the hands of the end user for use in normal operations, or (3) it is not cost beneficial to apply the consumption method of accounting. The biological products inventory meets all of these conditions, and CDC believes this is a more cost effective and preferable method of accounting for these items. The effect of this change on fiscal year 2002 net costs was not material.

CDC also changed its practice for reporting trust fund appropriations to incorporate U.S. Standard General Ledger requirements for trust fund accounting. This adjustment resulted in an increase to Cumulative Results of Operations and a decrease to Unexpended Appropriations of \$64,244, resulting in no change to total net position reported on the September 30, 2001, Consolidated Balance Sheet.

In addition, CDC changed the classification of certain funds between CDC programs to agree to the classification in the President's Budget for FY 2002. In FY 2002, all funds directly appropriated to ATSDR were included in the Health budget classification. In the past, all ATSDR funds were assigned to Natural Resources and Environment based on EPA's budget where the funding originated. To ensure consistency with the President's Budget, CDC has reported all directly appropriated ATSDR funds from FY 2001 and FY 2002 to the Health budget classification. This adjustment increased Health's Unexpended Appropriation by \$29,739 and decreased Health's Cumulative Results of Operations by (\$2,386) with the opposing affect to Natural Resources and Environment's accounts, respectively. This change had no affect on total net position. CDC also adjusted beginning balances of net position for other matters, amounting to \$1,782.

### B. Prior Period Adjustment

In FY 2002, CDC corrected the classification of a prior year lease from an operating to a capital lease, effective October 1, 2000. This adjustment increased General

Property, Plant, and Equipment, Total Assets, Other Intragovernmental Liabilities, and Total Liabilities on the September 30, 2001, Consolidated Balance Sheet by \$47,000, and had no significant affect on net costs or net position as of and for the fiscal years ended September 30, 2001 or 2002.

## Note 19: Apportionment Categories of Obligations Incurred

The following table identifies the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, Category B, and Exempt from apportionment.

Apportionment Categories of Obligations Incurred			
Health	Obligations Incurred-Direct	Obligations Incurred-Reimbursable	Total Obligations Incurred
Category A	\$3,865,724	\$226,566	\$4,092,290
Category B	1,514,693	26,823	1,541,516
Exempt from apportionment	5,474	—	5,474
<b>Total</b>	<b>\$5,385,891</b>	<b>\$253,389</b>	<b>\$5,639,280</b>

## Note 20: Adjustments to the Beginning Balances of Budgetary Resources

Adjustments to budgetary resources represent recoveries and cancellations of expired accounts. Recoveries are cancellations or downward adjustments of prior year obligations that were not outlayed. During FY 2002, CDC recoveries totaled \$30,359. The primary source of funding for CDC is the annual disease control research and training appropriation from Congress. That appropriation totaled \$4,306,150 for FY 2002, and the majority of those funds are available for obligation only in FY 2002. CDC also received \$89,535 in funds available for obligation in FY 2002 for the Hazardous Substances Superfund (which funds ATSDR). During FY 2002, the following funds were permanently not available: \$29,136 of the annual appropriation; \$11,332 of ATSDR's funding; and \$354 of violent crime reduction funding. Of the total appropriation, \$261,999 belongs in a multiyear account and is available until expended for equipment and construction and renovation of facilities. CDC also obtained \$253,404 of budgetary authority under

reimbursable agreements with other federal agencies and the public. Additionally, CDC received a FY 2002 allocation transfer of \$989,535 and other transfers totaling \$28,000. CDC received gifts and donations totaling \$5,546 and cooperative research and development funds totaling \$1,328 in FY 2002.

## Note 21: Legal Arrangements Affecting Use of Unobligated Balances

CDC does not have any legal matters that would affect the use of unobligated balances.

## Note 22: Explanation of Differences between the Statements of Budgetary Resources and the Budget of the United States Government

The Offsetting Receipts line was added to the Statement of Budgetary Resources (SBR) for FY 2002 reporting to reduce the differences in the amounts reported in the audited financial statements and the President's Budget. Differences exist for various reasons including the level of the outlay offset for offsetting receipts. Offsetting receipts are collections into trust fund, special fund, and general receipt accounts. Offsetting receipts can either offset outlays at the agency level or at the governmentwide level.

Because the FY 2002 actual budget amounts were not available at the time this document was published, CDC's FY 2001 Statement of Budgetary Resources was reconciled to FY 2001 actual amounts published in the Budget of the United States Government as required by FASAB Technical Bulletin 2002-02, "Disclosures Required by Paragraph 79(g) of SFFAS 7 *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. No material differences were discovered. OMB will publish FY 2002 actual budget amounts in its FY 2004 Budget of the United States Government, which will be available in 2003.

## Note 23: Explanation of the Relationship between Liabilities not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

On the Statement of Financing, the “Other” category of “Components of net cost of operations that will not require or generate resources in the current period” represents a decrease in workers’ compensation benefits totaling (\$713). Similarly, on the Balance Sheet, the change in “Federal Employees’ and Veterans’ Benefits” decreased by (\$713).

In addition, the “Increase in annual leave liability” on the Statement of Financing under the “Components of net cost of operations that will not require or generate resources in the current period” totaled \$5,491. Similarly, the change in accrued leave not covered by budgetary resources for FY 2002 increased by \$5,491 (see Note 10).

The “Increase in environmental and disposal liability” reported under “Components of net cost of operations that will not require or generate resources in the current period” is \$3,385. Similarly, the “Environmental and disposal costs” reported in the balance sheet reflects an increase of \$3,385 from FY 2001.

The Statement of Financing line “Increase in exchange revenue receivable from the public” does not relate to a liability on the balance sheet.

## Note 24: Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

CDC received annual allocation transfers from EPA under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 for pollution control and abatement until FY 2000. In accordance with OMB Bulletin 01-09, CDC reported only the proprietary accounts for this ATSDR allocation transfer appropriation from EPA for pollution and control abatement. The “Other” line under the section “Components Not Requiring or Generating Resources” on the Statement of Financing is the difference between the budgetary and proprietary accounts totaling \$11,116.

# Required Supplementary Stewardship Information

## Research and Development

CDC does not currently maintain expense data for costs related to intramural research and development (R&D). The total estimated outlays for intramural R&D were \$220,058 (FY 1998), \$236,015 (FY 1999), \$274,885 (FY 2000), \$270,478 (FY 2001), and \$198,842 (FY 2002). The total estimated outlays for extramural R&D were \$178,431 (FY 1998), \$197,292 (FY 1999), and \$230,137 (FY 2000), \$286,422 (FY 2001), and \$334,407 (FY 2002). Occupational Safety and Health; Infectious Diseases; HIV/AIDS, STD, and TB Prevention; and Chronic Disease Prevention and Health Promotion were the primary areas where R&D was invested.



# Required Supplementary Information

Schedule of Public and Intragovernmental Costs by Program

Schedule of Significant Program Costs

Statement of Budgetary Resources by Account

Schedule of Deferred Maintenance

Schedule of Intragovernmental Assets

Schedule of Intragovernmental Liabilities

Schedule of Intragovernmental Revenues and Expenses

Centers for Disease Control and Prevention and  
Agency for Toxic Substances and Disease Registry**Schedule of Public and Governmental Costs by Program**

For the years ended September 30, 2002 and 2001— (dollars in thousands)

Net program activity costs	Intragovernmental							With the Public			FY 2002 Net Program Costs	FY 2001 Net Program Costs
	Gross Cost	Intra- OPDIV Eliminations	Consolidated Gross Cost	Less: Revenue Earned	Intra- OPDIV Eliminations	Consolidated Revenue Earned	Net	Gross Cost	Less: Revenue Earned	Net		
GPRA programs:												
Birth defects	\$ 6,254	—	\$ 6,254	\$ 76	—	\$ 76	\$ 6,178	\$ 27,211	\$ 1	\$ 27,210	\$ 33,388	\$ —
Chronic disease prevention	52,360	—	52,360	11,538	—	11,538	40,822	585,457	140	585,317	626,139	622,781
Environmental and occupational health:												
Health	7,330	(6,881)	449	16,629	(6,881)	9,748	(9,299)	213,254	201	213,053	203,754	412,992
Natural resources and environment	892	—	892	—	—	—	892	10,512	—	10,512	11,404	68,659
Environmental health	37,972	—	37,972	25,785	—	25,785	12,187	110,622	312	110,310	122,497	—
Epidemic services	34,786	—	34,786	13,275	—	13,275	21,511	108,227	161	108,066	129,577	114,656
Health statistics	49,883	—	49,883	50,353	—	50,353	(470)	99,077	1,837	97,240	96,770	62,460
HIV/AIDS, STDs, and TB	81,917	—	81,917	1,494	—	1,494	80,423	284,225	18	284,207	364,630	—
Immunization	37,316	—	37,316	404	—	404	36,912	1,307,619	5	1,307,614	1,344,526	1,254,758
Infectious diseases	105,775	—	105,775	22,147	—	22,147	83,628	1,018,404	268	1,018,136	1,101,764	1,280,868
Injury prevention and control	11,908	—	11,908	3,019	—	3,019	8,889	99,002	37	98,965	107,854	105,681
Occupational safety and health	74,147	—	74,147	15,191	—	15,191	58,956	143,666	183	143,483	202,439	—
Prevention research	(2)	—	(2)	—	—	—	(2)	11,620	—	11,620	11,618	15,535
Preventive health and health services block grant	1,387	—	1,387	—	—	—	1,387	158,834	—	158,834	160,221	87,397
Public health improvement	15,393	—	15,393	6,461	—	6,461	8,932	27,579	78	27,501	36,433	—
Net cost of operations	\$517,318	(\$6,881)	\$510,437	\$166,372	(\$6,881)	\$159,491	\$350,946	\$4,205,309	\$3,241	\$4,202,068	\$4,553,014	\$4,025,787

REQUIRED SUPPLEMENTARY INFORMATION



## REQUIRED SUPPLEMENTARY INFORMATION

Centers for Disease Control and Prevention and  
Agency for Toxic Substances and Disease Registry

### Schedule of Significant Program Costs

For the years ended September 30, 2002 and 2001 — (dollars in thousands)

Gross Program Activity Costs	FY 2002			FY 2001
	Grants and Transfer Payments	Other Costs	Gross Program Costs	Gross Program Costs
GPRA programs:				
Birth defects	\$ 8,992	\$ 24,473	\$ 33,465	\$ —
Chronic disease prevention	413,096	224,721	637,817	634,024
Environmental and occupational health:				
Health	163,691	56,893	220,584	457,571
Natural resources and environment	9,226	2,178	11,404	86,422
Environmental health	9,858	138,736	148,594	
Epidemic services	27,208	115,805	143,013	127,075
Health statistics	950	148,010	148,960	149,399
HIV/AIDS, STDs, and TB	139,494	226,648	366,142	—
Immunization	293,175	1,051,760	1,344,935	1,255,895
Infectious diseases	797,586	326,593	1,124,179	1,308,798
Injury prevention and control	71,260	39,650	110,910	106,390
Occupational safety and health	2,935	214,878	217,813	—
Prevention research	11,583	35	11,618	15,539
Preventive health and health services block grant	155,348	4,873	160,221	87,436
Public health improvement	(5,781)	48,753	42,972	—
<b>Gross cost of operations</b>	<b>\$2,098,621</b>	<b>\$2,624,006</b>	<b>\$4,722,627</b>	<b>\$4,228,549</b>

Centers for Disease Control and Prevention and  
Agency for Toxic Substances and Disease Registry

## Statement of Budgetary Resources by Account

For the year ended September 30, 2002 — (dollars in thousands)

	Disease Control, Research, and Training	Disease Control, Research, and Training (no-year)	Vaccines for Children (no-year)	Cooperative Research and Development	Gifts and Donations	Violent Crimes	Hazardous Substances Superfund	Combined Total
<b>Budgetary resources:</b>								
Budgetary authority:								
Appropriations received	\$4,044,151	\$261,999	\$ —	\$1,328	\$5,546	\$ —	\$ 89,535	\$4,402,559
Net transfer (+/-)	28,000	—	989,535	—	—	—	—	1,017,535
Unobligated balances:								
Beginning of period	19,444	38,595	22	1,528	2,403	10	27	62,029
Spending authority from offsetting collection:								
Earned								
Collected	134,128	12,752	—	—	—	—	12,320	159,200
Receivable from federal sources	3,332	9,144	—	—	—	—	1,405	13,881
Change in unfilled customer orders								
Advance received	1,191	(2,631)	—	—	—	—	310	(1,130)
Without advance from federal sources	57,579	7,559	—	—	—	—	16,315	81,453
Subtotal	196,230	26,824	—	—	—	—	30,350	253,404
Recoveries of prior year obligations	28,883	881	3	11	111	363	107	30,359
Permanently not available	(29,136)	—	—	—	—	(354)	(11,332)	(40,822)
<b>Total budgetary resources</b>	<b>\$4,287,572</b>	<b>\$328,299</b>	<b>\$989,560</b>	<b>\$2,867</b>	<b>\$8,060</b>	<b>\$ 19</b>	<b>\$108,687</b>	<b>\$5,725,064</b>
Status of budgetary resources:								
Obligations incurred:								
Direct	4,066,497	251,923	982,667	1,059	5,474	—	78,271	5,385,891
Reimbursable	196,187	26,824	—	—	—	—	30,378	253,389
Subtotal	4,262,684	278,747	982,667	1,059	5,474	—	108,649	5,639,280
Unobligated balances: available								
Apportioned	15,444	49,552	6,893	1,808	—	—	—	73,697
Exempt from apportionment	—	—	—	—	2,586	—	—	2,586
Unobligated balances not available								
	9,444	—	—	—	—	19	38	9,501
<b>Total status of budgetary resources</b>	<b>\$4,287,572</b>	<b>\$328,299</b>	<b>\$989,560</b>	<b>\$2,867</b>	<b>\$8,060</b>	<b>\$ 19</b>	<b>\$108,687</b>	<b>\$5,725,064</b>

REQUIRED SUPPLEMENTARY INFORMATION

Centers for Disease Control and Prevention and  
Agency for Toxic Substances and Disease Registry

Statement of Budgetary Resources by Account, *continued*

For the year ended September 30, 2002 — (dollars in thousands)

	Disease Control, Research, and Training	Disease Control, Research, and Training (no-year)	Vaccines for Children (no-year)	Cooperative Research and Development	Gifts and Donations	Violent Crimes	Hazardous Substances Superfund	Combined Total
<b>Relationship of Obligations to Outlays:</b>								
Obligated balance, net, beginning of period:	\$3,055,559	\$179,138	\$293,984	\$161	\$ 972	\$10,810	\$ 30,468	\$3,571,092
Obligated balance, net, end of period:								
Accounts receivable	(44,612)	(10,552)	—	—	—	—	(6,461)	(61,625)
Unfilled customer orders from federal sources	(143,521)	(9,846)	—	—	—	—	(23,277)	(176,644)
Undelivered orders	3,591,995	333,432	411,811	387	3,167	2,218	68,041	4,411,051
Accounts payable	239,913	10,602	96,388	70	414	60	5,769	353,216
Outlays:								
Disbursements	3,584,675	116,664	768,449	752	2,754	8,169	77,218	4,558,681
Collections	(135,320)	(10,120)	—	—	—	—	(12,630)	(158,070)
Subtotal	3,449,355	106,544	768,449	752	2,754	8,169	64,588	4,400,611
<b>Net Outlays</b>	<b>\$3,449,355</b>	<b>\$106,544</b>	<b>\$768,449</b>	<b>\$752</b>	<b>\$2,754</b>	<b>\$ 8,169</b>	<b>\$ 64,588</b>	<b>\$4,400,611</b>

Centers for Disease Control and Prevention/  
Agency for Toxic Substances and Disease Registry

## Schedule of Deferred Maintenance

For the years ended September 30, 2002 and 2001  
(dollars in thousands)

CDC has identified deferred maintenance in two categories. The primary method used in measuring deferred maintenance for all classes is the condition assessment survey.

Category	Asset Condition (see explanation <sup>1</sup> )	Cost to Return to Acceptable Condition
Buildings	4	\$42,777
Other Structures	4	4,948
<b>Total</b>		<b>\$47,725</b>

<sup>1</sup>Asset condition is assessed on a scale of 1–5 as follows: Excellent = 1; Good = 2; Fair = 3; Poor = 4; Very Poor = 5

A “fair” or “3” rating is considered acceptable operating condition. The majority of the assets for which CDC has deferred maintenance have been classified as “poor”; however, certain assets within the “Buildings” category had ratings of “good” or “fair.” The “poor” rating was estimated to be the average condition of the assets in each category.

Centers for Disease Control and Prevention/  
Agency for Toxic Substances and Disease Registry

## Schedule of Intragovernmental Assets

As of September 30, 2002 — (dollars in thousands)

Agency	Fund Balance with Treasury	Accounts Receivable	Advances and Prepayments	Consolidated Total
Department of the Treasury	\$4,607,003	\$ 7	\$ —	\$4,607,010
Department of Health and Human Services	—	28,656	3,284	31,940
Environmental Protection Agency	—	31,249	—	31,249
All other federal agencies	—	22,703	6,948	29,651
<b>Total</b>	<b>\$4,607,003</b>	<b>\$82,615</b>	<b>\$10,232</b>	<b>\$4,699,850</b>

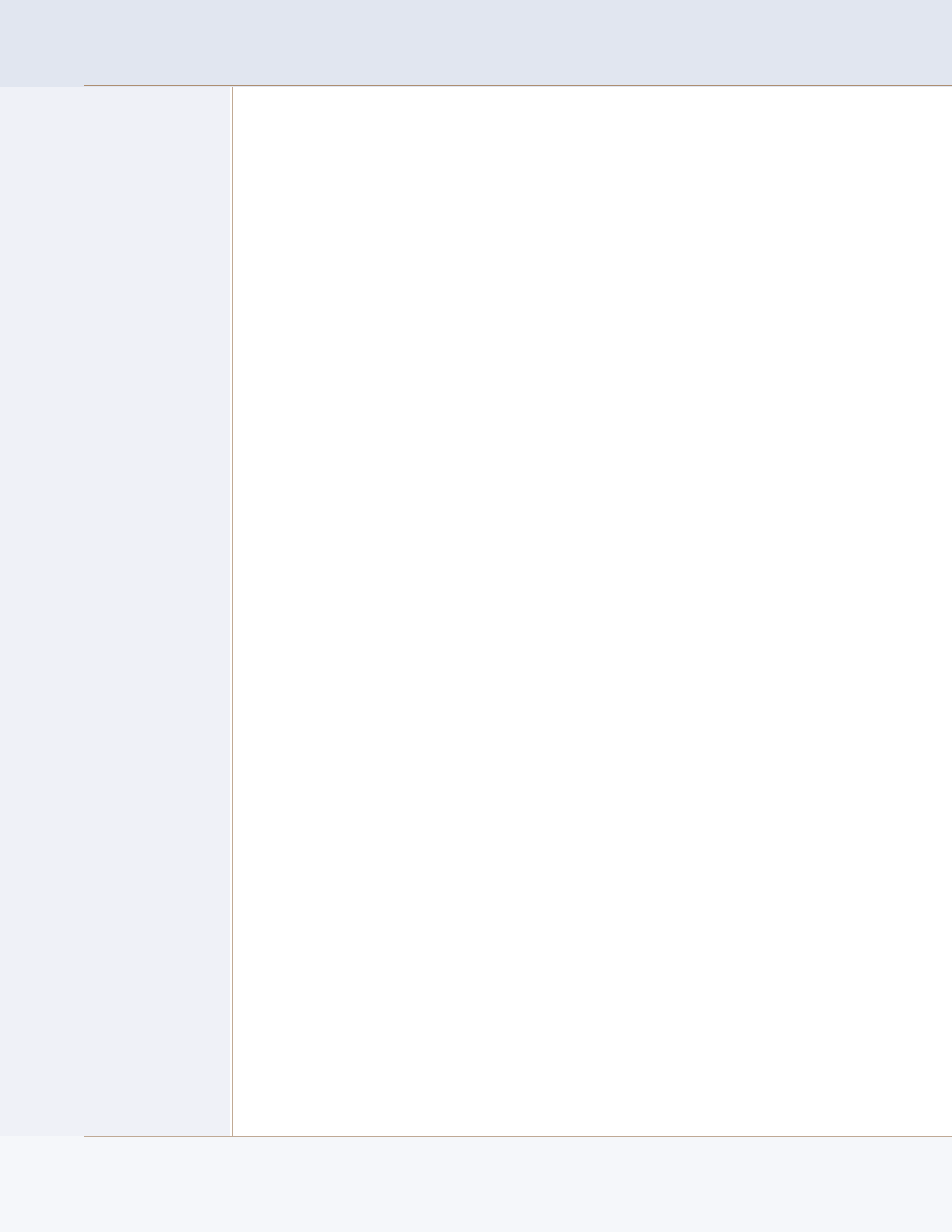
Centers for Disease Control and Prevention/  
Agency for Toxic Substances and Disease Registry  
**Schedule of Intragovernmental Liabilities**  
As of September 30, 2002 — (dollars in thousands)

Agency	Accounts Payable	Accrued Payroll and Benefits	Deferred Revenue	Other	Consolidated Total
Department of Health and Human Services	\$—	\$ —	\$ 5,899	\$ 2,686	\$ 8,585
General Services Administration	—	—	—	102,948	102,948
Office of Personnel Management	—	4,737	—	5	4,742
Department of Energy	—	—	5,134	8	5,142
All other federal agencies	2	180	4,803	6,089	11,074
<b>Total</b>	<b>\$ 2</b>	<b>\$4,917</b>	<b>\$15,836</b>	<b>\$111,736</b>	<b>\$132,491</b>

Centers for Disease Control and Prevention/  
Agency for Toxic Substances and Disease Registry  
**Schedule of Intragovernmental Revenues and Expenses**  
As of September 30, 2002 — (dollars in thousands)

Agency	Earned Revenue	Nonexchange Revenue	
		Transfers-In	Transfers-Out
Department of Health and Human Services	\$ 93,376	\$ —	\$—
Department of Energy	17,530	—	—
Agency for International Development	22,834	—	—
Environmental Protection Agency	4,145	78,202	—
All other federal agencies	21,606	—	—
<b>Total</b>	<b>\$159,491</b>	<b>\$78,202</b>	<b>\$—</b>

Agency	Gross Cost
Department of State	\$ 44,807
Department of the Treasury	32,654
Department of Health and Human Services	112,836
General Services Administration	105,139
Office of Personnel Management	138,563
All other federal agencies	76,438
<b>Total</b>	<b>\$510,437</b>



# Other Auditor Reports and Management Response

Independent Auditors' Report on Internal Control over Financial Reporting

Independent Auditors' Report on Compliance with Laws and Regulations

Letter from the Director, Financial Management Office, CDC/ATSDR

Letter from the Acting Associate Director for Budget and Finance and  
Deputy Chief Financial Officer and Director for Finance and Accounting,  
Financial Management Office, CDC/ATSDR



201 M Street NW  
Washington, DC 20036

## Independent Auditors' Report on Internal Control over Financial Reporting

Inspector General of the U.S. Department of Health and Human Services  
and Director of the Centers for Disease Control and Prevention  
and Agency for Toxic Substances and Disease Registry:

We have audited the consolidated totals on the consolidating balance sheet of the Centers for Disease Control and Prevention and the Agency for Toxic Substances and Disease Registry (CDC/ATSDR) as of September 30, 2002, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year then ended (hereinafter referred to as consolidated financial statements), and have issued our report thereon dated December 10, 2002. Our report acknowledges that the CDC/ATSDR changed its accounting for biological products inventory, trust fund receipts, and other matters, and restated certain amounts reflected in the consolidated totals on its fiscal year 2001 consolidating balance sheet. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

In planning and performing our fiscal year 2002 audit, we considered the CDC/ATSDR's internal control over financial reporting by obtaining an understanding of the CDC/ATSDR's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the fiscal year 2002 consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to provide assurance on the CDC/ATSDR's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our fiscal year 2002 consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming



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to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the CDC/ATSDR's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

In our fiscal year 2002 audit, we noted certain matters, discussed in Exhibit I, involving the internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of the reportable conditions are believed to be material weaknesses. Exhibit II presents the status of prior year audit findings.

### Additional Required Procedures

As required by OMB Bulletin No. 01-02, we considered the CDC/ATSDR's internal control over the Required Supplementary Stewardship Information by obtaining an understanding of the CDC/ATSDR's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over Required Supplementary Stewardship Information, and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the *Fiscal Year 2002 Chief Financial Officer's Annual Report*, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion thereon.

We also noted other matters involving internal control and its operation that we have reported to the management of the CDC/ATSDR in a separate letter dated December 10, 2002.

This report is intended solely for the information and use of the CDC/ATSDR's management, the U.S. Department of the Health and Human Services Office of the Inspector General, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 10, 2002

## Exhibit I—Summary of Reportable Conditions

### No. 2002-01 Strengthen Controls over Information Systems Environment

The CDC/ATSDR serves as the national focus for developing and applying disease prevention and control, environmental health, and health promotion and education activities designed to improve the health of the people of the United States. To support this mission, the CDC/ATSDR has created an open and distributed computing environment to facilitate collaboration and knowledge sharing. Consequently, the CDC/ATSDR faces the challenging task of maintaining an open computing environment while protecting its critical information assets against malicious use and intrusion. During fiscal year 2002, we found that the CDC/ATSDR was in the process of implementing and refining various aspects of its information security program including documenting security plans for its major applications and general support systems, improving physical access, implementing a managed security service, and developing enhanced disaster recovery capabilities. While these accomplishments are noteworthy, additional actions are necessary to properly secure and to further improve the CDC/ATSDR's information systems control environment. Specifically, we noted that the CDC/ATSDR has not

- fully developed an entitywide risk management framework that includes a process for periodically assessing risks, establishing mitigating controls across the organization, and continuously monitoring the effectiveness of these controls;
- fully updated and formally approved its security plans for all financial applications;
- consistently designed, configured, and reviewed logical security controls to prevent unauthorized access to its networked resources and critical production data;
- fully implemented a Certification and Accreditation process that includes, but is not limited to, performing reviews of security controls, documenting application controls in its security plans and identifying application specific risks, prior to accreditation.

The Computer Security Act requires federal agencies to identify and provide security protection commensurate with the risk resulting from the loss of, misuse of, unauthorized access to, or modification of, information collected or maintained by or on behalf of the agency. The Government Information Security Reform Act reemphasizes that, as part of an agencywide security program, agencies need to ensure that proper security controls are in place to manage information systems

security throughout the life cycle of a system. In addition, Office of Management and Budget Circular A-130 requires agencies to establish a process to certify and accredit information systems and the National Institute of Standards and Technology provides the relevant guidance.

Implementing and maintaining a secure computing environment is a significant challenge and requires senior management sponsorship and dedicated resources. The primary reason for its information system control weaknesses has been that CDC/ATSDR has not yet fully implemented a comprehensive entitywide security management program. An effective program would include assessing risks, establishing appropriate policies and related controls, raising awareness of prevailing risks and mitigating controls, and evaluating the effectiveness of established controls. Although CDC/ATSDR has made progress in strengthening its information security posture, it still needs to take additional steps to fully implement its security management program. These weaknesses place CDC/ATSDR's financial and other sensitive information and assets at risk of unauthorized disclosure or loss and its critical operations at risk of disruption.

## Recommendation

We recommend that the CDC/ATSDR take additional actions to properly secure and further improve the CDC/ATSDR's information system control environment. Specifically, we recommend that the CDC/ATSDR

- fully develop an entitywide risk management framework that includes a process for periodically assessing risks, establishing mitigating controls across the organization, and continuously monitoring the effectiveness of these controls;
- fully update and formally approve its security plans for all financial applications;
- consistently design, configure, and review logical security controls to prevent unauthorized access to its networked resources and critical production data;
- fully implement a Certification and Accreditation process that includes, but is not limited to, performing reviews of security controls, documenting application controls in its security plans and identifying application specific risks, prior to accreditation.

## No. 2002-02 Strengthen Controls over Grants Monitoring Process

The lack of formal policies and procedures and an inadequate number of personnel has resulted in the CDC/ATSDR not closing out expired grants in a timely manner. In fiscal year 2002, the CDC has not closed-out any expired grants and there is a backlog of expired grants from prior years that have not yet been closed. As a result,

amounts due back to the federal government for unallowable costs reimbursements, if any, are not being identified timely to ensure costs can be recovered from grantees. CDC/ATSDR has developed draft closeout procedures and is revising those procedures, with contractor assistance, to provide comprehensive policies and procedures for grants. Contractor assistance has also been obtained to closeout all backlogged grants and to provide closeout assistance for all expired grants on an ongoing basis in fiscal year 2003.

Additionally, the CDC/ATSDR does not currently have a process in place to compare financial information provided by grantees on the Financial Status Reports (FSR) to accounting information maintained by the Payment Management System (PMS), the subsidiary system used to process grant advances and expenditures for the grantee community. As a result, there are no controls at the CDC/ATSDR to ensure that the grant information reported by PMS and reflected on the financial statements matches the information directly provided to the CDC/ATSDR by the grantee.

Although the CDC/ATSDR obtains Single Audit reports as a mechanism for providing grant oversight, these audit reports are not required to be submitted until nine months after a grantee's fiscal year-end. Therefore, obtaining and reviewing Single Audit reports does not provide timely assurance as to the propriety of current year amounts. The CDC/ATSDR also does not have a formal policy regarding grantee site-visits performed by the Grants Specialists for monitoring financial and programmatic aspects of the grant program. The lack of adequate financial and programmatic monitoring procedures may lead to misappropriation of grant funds by grantees.

## Recommendation

We recommend that the CDC/ATSDR

- finalize its closeout procedures related to grants;
- begin to perform closeout procedures utilizing its own resources concurrent with contractor assistance;
- implement procedures to analyze the FSR information provided by the grantees in relation to the payment information in PMS;
- develop formal policies regarding the nature and frequency (i.e., annually) of site visits conducted by the Grants Specialists in order to provide timely assurance as to the propriety of funds expended by grantees.

## No.2002-03    Improve Controls over the Preparation, Analysis, and Monitoring of Financial Information

A combination of three factors: accelerated reporting deadlines; turnover in critical positions; and manually intensive financial reporting processes, resulted in numerous internal control findings relating to the CDC/ATSDR's preparation, analysis, and monitoring of financial information reported in its financial statements. A brief discussion of each of these factors and the specific internal control findings are discussed in the following paragraphs.

Milestone reporting dates are given to the CDC/ATSDR from the Department of Health and Human Services (HHS). The financial reporting due dates were accelerated by approximately 30 days in fiscal year 2002 and they are scheduled to be further accelerated in 2003. Additionally, the CDC/ATSDR is now required to submit financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) to OMB on a quarterly basis.

During fiscal year 2002, the CDC/ATSDR Financial Management Office (FMO) experienced turnover in critical positions and additional experienced management level staff will be lost due to retirement in fiscal year 2003.

Currently, the CDC/ATSDR's financial reporting processes require many adjusting journal entries to be made to prepare the financial statements. These entries are derived from manually intensive processes in order to prepare financial statements in accordance with GAAP.

The high level of findings and the accelerated reporting deadlines support the need for the CDC/ATSDR to streamline and reengineer its current financial reporting processes, and to reassess Financial Management Office (FMO) staffing levels.

Specifically, we identified the following:

- The CDC/ATSDR's central accounting system and existing processes do not facilitate the timely preparation of financial statements in accordance with GAAP. Consequently, at fiscal year end, the FMO had to record over 70 adjusting journal entries to generate GAAP financial statements. Many of these adjusting journal entries could be eliminated by more timely review of journal entries by supervisory staff and performance of account analysis and reconciliations throughout the fiscal year.
- The existing process of recording accounts payable at fiscal year end is also a manually intensive process that is based upon a review of material disbursements subsequent to year-end. With the accelerated deadlines in fiscal year 2002, this presented the CDC/ATSDR with a significant challenge in ensuring

that accounts payable were fairly stated at fiscal year-end. Delays in management completing its analysis and the subsequent audit of such amounts, created additional difficulties for CDC/ATSDR in meeting its reporting deadline with HHS. Our audit of management's accounts payable resulted in additional accruals at fiscal year-end of approximately \$24.5 million.

- Accounts payable and undelivered orders subsidiary records are reconciled to the general ledger on a quarterly basis rather than on a monthly basis as set forth by HHS policies and procedures. Untimely completion of periodic reconciliations may lead to the need for late adjustments and may delay the timely preparation of financial statements.
- The CDC/ATSDR has obligated funds and incurred costs without first obtaining signed reimbursable agreements. Incurring costs against unsigned agreements creates potential budgetary exposure for the CDC/ATSDR in the event the agreements are ultimately not executed.
- Approximately \$11 million of construction in progress was misclassified as buildings in service at September 30, 2002. We also identified construction costs that were expensed rather than capitalized during the year and in prior years. In addition, the CDC/ATSDR had not recorded depreciation on capital lease additions in fiscal year 2002 and had not capitalized software in accordance with HHS's software capitalization policy.
- A capital lease on a building placed in service in October 2000 amounting to approximately \$47 million was incorrectly classified as an operating lease in 2001. While management ultimately identified the error prior to the issuance of the 2002 financial statements, internal controls over the initial classification of building and facility leases needs improvement.
- The CDC/ATSDR does not have a process implemented to review and assess the disposition of unbilled accounts receivable in a timely fashion. We also identified several instances where accounts receivable were being moved from "unbilled accounts receivable" to "billed accounts receivable" in the general ledger but such amounts were never billed. One such item noted was for approximately \$285,000 recorded in fiscal year 1999 that had not been billed through IPAC as of December 2002. Discussions with CDC/ATSDR indicate that these balances were overlooked and should have been collected previously.

## Recommendations

We recommend that the CDC/ATSDR FMO look for opportunities to streamline their year-end closing process and place more reliance on "estimates" where appropriate. One such area is in the recording of accounts payable at fiscal year-end. As

previously mentioned, the CDC/ATSDR, like many organizations, has relied on a review of disbursements subsequent to year-end to determine its accounts payable balances. However, as the reporting deadlines are accelerated this methodology is no longer sufficiently comprehensive to provide management with a reasonable estimate of accounts payable at fiscal year-end. Management needs to pursue other methodologies that are based on statistical trend analysis of payment patterns.

We also recommend that CDC/ATSDR

- Reassess existing staffing levels and competencies in the FMO to ensure that:
  - a sufficient level of resources exists to accomplish the tasks that must be accomplished by the accelerated due dates, and
  - the staff that are assigned are adequately trained to carry out their responsibilities.
- Implement procedures to ensure that amounts are not obligated and expenses are not incurred without a signed reimbursable agreement.
- Ensure that adjusting journal entries are adequately supported and thoroughly reviewed by an appropriate supervisor before they are recorded in the financial statements.
- Establish procedures to ensure that qualifying capital additions and improvements are being capitalized and depreciated in accordance with established policies. In addition, CDC/ATSDR should also perform a review of their expense population on a periodic basis to identify assets that may have been improperly expensed.
- Improve internal controls over the initial classification of building and facility leases.
- Implement accounts receivable procedures to:
  - Research which agencies should be billed through IPAC on each account as they are originated during the year.
  - Ensure that amounts are not reclassified from “unbilled” accounts receivable to “billed” accounts receivable until such time as they are actually billed.
  - Review older account balances to determine whether they are collectible or should be written off.
  - Ensure that personnel and other resources are available to increase the efficiency of the accounting and billing/collection processes.

## Exhibit II—Summary of the Status of Prior Year Findings

Reportable Condition	Status
Analysis and Development of Financial Statements	Condition has not been fully corrected and is repeated in fiscal year 2002 finding No. 2002-03.
Controls over grants – PMS grant accounting	Condition has not been fully corrected and is repeated in fiscal year 2002 finding No. 2002-02.
Reimbursable Agreements	Condition has not been fully corrected and is repeated in fiscal year 2002 finding No. 2002-03.
Controls over grants – Grant Oversight	Condition has not been fully corrected and is repeated in fiscal year 2002 finding No. 2002-02.





201 M Street NW  
Washington, DC 20036

## Independent Auditors' Report on Compliance with Laws and Regulations

Inspector General of the U.S. Department of Health and Human Services  
and Director of the Centers for Disease Control and Prevention  
and Agency for Toxic Substances and Disease Registry:

We have audited the consolidated totals on the consolidating balance sheet of the Centers for Disease Control and Prevention and Agency for Toxic Substances and Disease Registry (CDC/ATSDR) as of September 30, 2002, and the related consolidated totals on the accompanying consolidating statements of net cost and changes in net position, combined statement of budgetary resources, and consolidated statement of financing for the year then ended (hereinafter referred to as consolidated financial statements), and have issued our report thereon dated December 10, 2002. Our report acknowledges that the CDC/ATSDR changed its accounting for biological products inventory, trust fund receipts, and other matters, and restated certain amounts reflected in the consolidated totals on its fiscal year 2001 consolidating balance sheet. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

The management of the CDC/ATSDR is responsible for complying with laws and regulations applicable to the CDC/ATSDR. As part of obtaining reasonable assurance about whether the CDC/ATSDR's fiscal year 2002 consolidated financial statements are free of material misstatement, we performed tests of the CDC/ATSDR's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the CDC/ATSDR. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.



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The results of our tests of compliance with certain provisions of laws and regulations described in the preceding paragraph of this report, exclusive of FFMIA, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Under FFMIA, we are required to report whether the CDC/ATSDR's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests of FFMIA disclosed instances, described below, where the CDC/ATSDR's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

### Compliance with the United States Government Standard General Ledger at the Transaction Level

In accordance with OMB Circular A-127, *Financial Management Systems*, the CDC/ATSDR is required to record financial events consistent with the applicable account descriptions and attributes reflected in the United States Government Standard General Ledger (SGL) at the transaction level. However, the CDC/ATSDR accounting system transaction code posting models were not configured to record the following transactions consistent with the SGL:

- upward and downward adjustments;
- travel advances, however, the posting model was corrected in August 2002 to include the necessary budgetary entries;
- appropriated capital related to reimbursable expenses;
- revenues associated with the CDC/ATSDR's four appropriated Trust Fund accounts.

The CDC/ATSDR recorded manual adjusting entries to correct the misstatements associated with each of the above issues.

### Recommendation

We recommend that the CDC/ATSDR configure its accounting system transaction code posting models to record the above transactions consistent with the SGL.

The results of our tests of FFMIA disclosed no instances in which the CDC/ATSDR's financial management systems did not substantially comply with federal financial management systems requirements or federal accounting standards.



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This report is intended solely for the information and use of the CDC/ATSDR's management, the U.S. Department of Health and Human Services Office of the Inspector General, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 10, 2002



DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Public Health Service

Centers for Disease Control  
and Prevention (CDC)  
Atlanta, GA 30030

January 8, 2003

Mr. Paul M. Geraty  
KPMG LLP  
2001 M Street, N.W.  
Washington, D.C. 20036

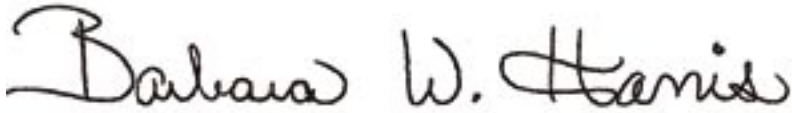
Dear Mr. Geraty:

We have reviewed the recommendations contained in the Independent Auditors' Report on Internal Control over Financial Reporting, including Exhibit I, Summary of Reportable Conditions for the fiscal year ended September 30, 2002. CDC and ATSDR concur with the recommendations, and we appreciate the advice provided by our auditors. Although the report is generally positive, it also highlights needed improvements in our information systems, grants monitoring, and financial reporting. We are committed to attaining these objectives, and we would like to highlight a few CDC initiatives that support our commitment to long-term financial improvement.

Since FY 2001, CDC has been an active participant in the HHS initiative to develop a uniform financial management system (UFMS), and CDC has been selected to be the first HHS operating division to implement the new UFMS system. During FY 2002, we automated our reimbursable billings; enhanced the automation of our year-end closing transactions; and significantly streamlined our year-end closing processes to accommodate accelerated reporting dates. We also implemented a new indirect cost allocation methodology that was developed with assistance from a private consulting firm. CDC is also actively participating in various E-Government projects such as e-Grants, e-Travel, and Enterprise Human Resources and Payroll. Recruitment and training of a highly skilled workforce is another high priority. CDC's Financial Management Certificate Program was developed in FY 2002 to provide technical training for staff members who want to enhance their career opportunities. Presently, more than 200 CDC employees are enrolled in the certificate program.

In summary, CDC must balance several major priorities during the near future. Workforce development, E-Government, implementation of a new financial system, and maintenance of our current system will pose significant challenges. However, we will strive to implement the audit recommendations while also meeting the many other commitments that are critical to our programs.

Sincerely,

A handwritten signature in dark ink, reading "Barbara W. Harris". The signature is written in a cursive style with a large initial 'B' and a distinct 'H'.

Barbara W. Harris

Acting Associate Director for Budget and Finance and  
Deputy Chief Financial Officer and Director for Finance and Accounting

